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BEFORE THE ARIZONA CORPORATION COMMISSION

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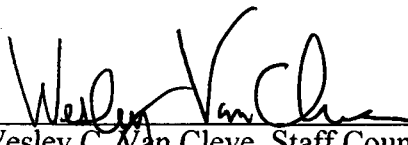
IN THE MATTER OF THE APPLICATION
OF SAHUARITA WATER COMPANY, LLC
FOR A RATE INCREASE.

DOCKET NO. W-03718A-09-0359

STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony of Staff Witnesses Jeffrey Michlik, Juan Manrique and Marlin Scott, Jr., in the above-referenced matter.

RESPECTFULLY SUBMITTED this 21st day of June, 2010.


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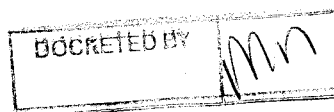
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Arizona Corporation Commission
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JUN 21 2010





BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
SAHUARITA WATER COMPANY, L.L.C.)
("SWC") FOR AN OPINION AND ORDER OF)
THE COMMISSION (i) DETERMINING THE)
FAIR VALUE OF THE UTILITY PROPERTY)
OF SWC FOR RATEMAKING PURPOSES, (ii))
FIXING A JUST AND REASONABLE RATE)
OF RETURN THEREON, (iii) APPROVING)
RATES AND CHARGES DESIGNED TO)
PRODUCE REVENUES SUFFICIENT TO)
RECOVER SWC'S COST OF SERVICE AND)
AUTHORIZED RATE OF RETURN, AND (iv))
PROVIDING FOR THE RECOVERY OF)
CERTAIN FINANCINGS AND OPERATING)
EXPENSES THROUGH A SURCHARGE AND)
A PASS-THROUGH TARIFF, RESPECTIVELY)

DOCKET NO. W-03718A-09-0359

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 21, 2010

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**EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NO. W-03718A-09-0359**

Staff's Surrebuttal Testimony recommends revised rates that would increase operating revenues by \$399,357 to produce operating revenues of \$2,614,500 resulting in operating income of \$801,261 or an 18.03 percent increase over test year revenues of \$2,215,143. Staff also recommends a revised FVRB of \$8,709,357. Staff's recommended rate of return is 9.20 percent.

Revenue Requirement

Staff recommends its revised revenue requirement, revised revenue increase, and revised percentage of revenue increase.

Rate Base

Staff responds to Sahuarita Water Company, LLC's ("Company") comments on Staff's inclusion of customer deposits in rate base.

Income Statement

Staff recommends revised operating income, and responds to the Company's comments on affiliate salaries, amortization of contributions in aid of construction ("CIAC"), and income taxes. Based on new information, Staff now recommends disallowance of employee bonuses.

Other Issues

Staff responds to the Company's comments on the Central Arizona Ground Water Replenishment District ("CAGRD") Fee.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Jeffrey M. Michlik who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Sahuarita Water Company ("Company") witnesses, Mrs. Marian Homiak, Mr. Mark Seamans, Mr. David S. Cutler, and Mr. Thomas J. Bourassa, regarding revenue requirement, rate base, and operating revenues and expenses.

Q. Did you attempt to address every issue the Company raised in its Rebuttal Testimony?

A. No. Staff limited its discussion to the specific issues as outlined below. Staff's lack of response to any issue in this proceeding should not be construed as agreement with the Company's position in its Rebuttal Testimony; rather, where there is no response, Staff relies on its original Direct Testimony.

Q. Please explain how Staff's Surrebuttal Testimony is organized.

A. Staff's Surrebuttal Testimony is generally organized to present issues that the Company presents in its Rebuttal Testimonies.

REVENUE REQUIREMENT

Q. Has Staff reviewed Mr. Bourassa's Rebuttal Testimony regarding revenue requirement for the Company?

A. Yes.

Q. Please summarize the proposed and recommended revenue requirement, revenue increase, and percentage increase.

A. The proposed and recommended revenue requirement, revenue increase, and percentage increase are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Company-Direct	\$3,377,358	\$1,162,216	52.47 percent
Staff-Direct	\$2,477,559	\$262,416	11.85 percent
Company-Rebuttal	\$3,518,855	\$1,303,712	58.85 percent
Staff-Surrebuttal	\$2,608,189	\$393,046	17.74 percent

Q. Why is the Company's revenue requirement higher and proposed increase larger than Staff's recommendation?

A. The difference in revenue requirement is primarily a result of the differences in post-test year plant, cost of capital, tax issues, amortization of CIAC, and salary expenses.

RATE BASE SUMMARY

Q. Has Staff reviewed Mr. Bourassa's Rebuttal Testimony regarding rate base for the Company?

A. Yes.

1 **Q. Please identify each party's respective rate base recommendations?**

2 A. Yes. The rate bases proposed and recommended by all parties in the case are as follows:

3

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$7,418,410	\$7,418,410
Staff-Direct	\$8,709,357	\$8,709,357
Company-Rebuttal	\$10,059,443	\$10,059,443
Staff-Surrebuttal	\$8,709,357	\$8,709,357

4

5 **CUSTOMER DEPOSITS**

6 **Q. Does Staff still believe security deposits should be included in rate base?**

7 A. Yes. By definition customer security deposits are customer deposits.

8

9 **Q. On page 14 of Mr. Bourassa's testimony, he states that the Company disagrees with**
10 **Staff's inclusion of customer deposits in rate base for three reasons. First he states**
11 **that customer security deposits are not capital provided by non-investors. Does the**
12 **rate making accounting literature support this position?**

13 A. No. In fact, as stated in my direct testimony, according to the publication Accounting for
14 Public Utilities, by Robert L. Hane, Gregory E. Aliff, and Deloitte & Touche LLP:

15

16 *Customer deposits represent funds received from ratepayers as security*
17 *against potential losses arising from failure to pay for service. These*
18 *funds are similar in nature to customer advances for construction. Both*
19 *represent a liability to repay the funds received either after a specified*
20 *period or upon satisfaction of certain requirements. Like customer*
21 *advances, the deposits are available to the utility for use in support of its*
22 *rate base investment.*

1 **Q. How does the National Association of Regulatory Utility Commissioners ("NARUC")**
2 **Uniform System of Accounts for Class B Water Utilities define account 235**
3 **Customer Deposits?**

4 A. NARUC states: "This account shall include all amounts deposited with the utility by
5 customers as security for the payment of bills."

6
7 **Q. Mr. Bourassa states, on page 15 of his Rebuttal Testimony, that "if Staff truly**
8 **considered the security deposit as a source of capital then Staff should have included**
9 **the annual interest cost in operating expense." Does Staff disagree with including the**
10 **annual interest cost in operating expenses?**

11 A. No. Staff will consider inclusion of an appropriate amount of interest expense on
12 customer security deposits in operating expenses if the amount is appropriately supported.
13 Documentation would include, but would not be limited to, documentation showing the
14 customer name, amount of the deposit, the length of time the deposit was held, the
15 calculation of the interest expense, and the front and the back of the canceled check for a
16 sufficient number of customers. It may also include a comparison/reconciliation of new
17 customers to deposits received and other similar analyses.

18
19 **Q. Do you agree with Mr. Bourassa's statement on page 15, of his Rebuttal Testimony,**
20 **that "[s]ecurity deposits are akin to prepaid expense and materials and supplies**
21 **inventory which are components of working capital"?**

22 A. No. As stated earlier, customer deposits are akin to advances in aid of construction and
23 are deductions from rate base, and are not components of working capital.

24

1 **Q. If deposits are not deducted from rate base what is the effect?**

2 A. Similar to advances in aid of construction, the Company would be earning a return on
3 money that is not its own investment.

4

5 **AFFILIATE SALARIES**

6 *A. Affiliates*

7 **Q. Did you address the issue of affiliate organizations in your Direct Testimony?**

8 A. Yes.

9

10 **Q. Did the Company respond to the affiliate issue in its Rebuttal Testimony?**

11 A. No.

12

13 **Q. Is the Company nevertheless still stating that Rancho Sahuarita Management**
14 **Company, LLC (or "Management Company") is not an affiliate of the Company?**

15 A. Yes. In the Company's responses to Staff data requests JMM 7-4, JMM 7-5, JMM 7-6,
16 JMM 7-8, and JMM 7-9, the Company affirmatively stated, "Sahuarita Water Company
17 ("SWC") does not agree that it is an "affiliate" of the Management Company."

18

19 Staff notes, as stated in Direct Testimony, that the President of the Management
20 Company, Mark Seamans, confirmed that the Company was an affiliated entity.

21

22 **Q. Would Staff like to add any additional information at this time?**

23 A. Yes. In response to data request JMM 7-6, the Company provided Staff with an
24 employment agreement between Mark Seamans and the Management Company, for the
25 position of General Manager of the Company.

26

1 The Severance Package clause states the following (see Attachment A):

2
3 *Severance in the Event of a Sale: If, after your Hire Date, the Rancho*
4 *Sahuarita Water Company is sold to an unaffiliated entity (unaffiliated*
5 *shall mean any entity not owned, managed, or controlled by Bob Sharpe,*
6 *Fred Lewis, Cort Chalfant or other subsequent senior managers of*
7 *Rancho Sahuarita related companies including but not limited to: Rancho*
8 *Sahuarita Manangement Company, LLC, Interchange Opportunity Fund,*
9 *LLP, or Sharpe and Associates, Inc.) and the new entity then terminates*
10 *your employment within ninety (90) days of the closing date of the sale for*
11 *reasons other than the "Exceptions" listed herinafter under the*
12 *"Severance" provision, then you shall be entitled to a lump-sum payment*
13 *thereupon equal to Eighty-Thousand Dollars, less any tax withholding*
14 *required by law, upon signing a Release of All Claims acceptable to the*
15 *Company.*

16
17 **Q. Who owns the Management Company?**

18 A. MKS Equitas Investment Group, LTD.

19
20 **Q. Who owns and is President and Director of MKS Equitas Investment Group?**

21 A. Fred Lewis.

22
23 **Q. What does Staff conclude from this information?**

24 A. Since the above clause describes as an affiliate any entity that is owned, managed or
25 controlled by Fred Lewis, then, by the Company's own definition, the Management
26 Company is an affiliate, as confirmed by the statement of its president.

27
28 *B. Salary Surveys*

29 **Q. Have you reviewed the Rebuttal Testimony of Marian Homiak?**

30 A. Yes.

31

1 **Q. In Ms. Homiak's testimony, did she provide surveys conducted by the American**
2 **Water Works Association ("AWWA"), New York times surveys, and surveys of**
3 **water companies in Arizona?**

4 A. Yes.

5
6 **Q. Ms. Homiak stated that the surveys from the New York Times are not industry-**
7 **specific, and that the AWWA survey is industry-specific, but does not address**
8 **regional differences. Please comment.**

9 A. Staff agrees with that assessment, and based on the limitations as cited in her testimony,
10 Staff concludes that the surveys do not provide adequate substantiation for salary amounts.
11 The comparison should be made against similarly-situated B-sized water companies under
12 the jurisdiction of the Commission.

13
14 **Q. Did the Company provide any comparison to water companies in Arizona under the**
15 **jurisdiction of the ACC?**

16 A. Yes. The Company provided a comparison of its operating costs to other Arizona water
17 utilities.

18
19 **Q. Please comment on the Company's survey.**

20 A. First, the comparison includes utilities that vary in size from the Company. Further,
21 several of the companies illustrated have no salary information, and the cost at issue
22 relates specifically to salaries, not to operating costs in general.

23
24 **Q. Are salary surveys a substitution for competitive bids?**

25 A. No. Conventional wisdom and data indicate that the competition intrinsic in the bidding
26 process brings about a price advantage to rate payers that a salary survey alone does not.

1 This competition helps to ensure that the best service at the lowest price is obtained.
2 Salary surveys may provide some helpful comparisons, but they are also highly subjective.

3
4 **Q. What do you mean by highly subjective?**

5 A. Overall service requirements, as well as specific duties and responsibilities of any given
6 job title, may be quite variable from one water system to the next.

7
8 **Q. Did Staff prepare a comparison of the Company's salary expense to the salary
9 expense of other B-size water companies under the Commission's jurisdiction?**

10 A. Yes (please see attachment B).

11
12 **Q. What does Staff's comparison suggest?**

13 A. Staff's comparison clearly illustrates that, even among similar-sized water utilities in
14 Arizona, there is a large variance in salary costs from one system to the next, making
15 salary surveys an unreliable basis for comparison.

16
17 *C. Management Contract*

18 **Q. On page 5 of her Rebuttal Testimony, Ms. Homiak unequivocally states that there is
19 not a 25 percent mark-up for overhead and profit for the Management Company.
20 Please comment.**

21 A. Based on a series of Staff data requests and review of the affiliate's general ledger, Staff
22 could not detect a separate line item for either an overhead and/or profit component.

23
24 **Q. Did Staff examine the contracts of other affiliates that the Management Company
25 does business with?**

26 A. Yes.

1 **Q. Did any of those contracts include a detailed schedule of employee salaries like the**
2 **one included in this management contract?**

3 A. No.
4

5 **Q. Does the absence of a separate mark-up necessarily mean that Staff finds the salaries**
6 **are reasonable?**

7 A. No. I will discuss this later in my testimony.
8

9 **Q. Does Staff still have concerns related to the management contract?**

10 A. Yes. Even though the Management Company stated that it currently does not bill the
11 Company for the 25 percent mark-up for overhead and profit, this does not preclude the
12 Management Company from including this mark-up at a later date.
13

14 *D. Company Supplied Information*

15 **Q. You stated earlier that the Management Company's salary expense appeared high**
16 **compared to other similarly-sized water companies in Arizona?**

17 A. Yes, and as a result Staff asked for additional information from the Company that was not
18 available when Staff filed its Direct Testimony.
19

20 **Q. Referring to Schedule 1 of the Contract between the Company and the Management**
21 **Company (see Attachment C), the Company makes a distinction between dedicated**
22 **and not dedicated employees. What does this mean?**

23 A. The Company's response to Staff data request JMM 7-1 indicated that "not dedicated"
24 employees are employees with a salary allocation to the Company that is less than 100
25 percent. Dedicated employees are employees with a salary allocation to the Company that
26 is equal to 100 percent.

1 **Q. Does Staff have concerns regarding the allocation of salaries for employees classified**
2 **as “not dedicated?”**

3 A. Yes, such an allocation creates the potential for salary costs that actually belong to the
4 unregulated affiliate to be shifted to the regulated water company and its captive rate
5 payers.

6
7 **Q. Where are these “not dedicated” employees assigned?**

8 A. According to the Company’s response to Staff data request 7-5, these employees are
9 assigned to 001 – Corp Office – Sharpe & Associates.

10
11 **Q. How much salary expense of these “not dedicated” employees was allocated from the**
12 **Management Company to the Company?**

13 A. \$100, 831.

14
15 **Q. How much salary expense in bonuses for these “not dedicated” employees was**
16 **allocated from the Management Company to the Company?**

17 A. \$16,598.

18
19 **Q. Would Staff necessarily disallow the salary costs of these employees just because the**
20 **employees were not dedicated full-time to the Company?**

21 A. No. Staff would recommend inclusion of any costs that were reasonable and properly
22 substantiated. To that end, Staff requested supporting documentation for the allocated
23 costs of the “not dedicated” employees.

24

1 **Q. Did Staff request supporting documentation for the allocated costs of the “non-**
2 **dedicated” employees?**

3 A. Yes. Specifically, Staff asked how the allocation percentages of those employees were
4 derived.

5
6 **Q. What was the Company’s response?**

7 A. The Company responded, “The percentage allocated to each position was based on the
8 employee’s estimate of actual time spent.”

9
10 **Q. Did Staff also ask for timesheets to support the employees’ activities?**

11 A. Yes. However, the Company’s timesheets provided only the number of hours worked by
12 the employees and no descriptions of actual activities performed.

13
14 **Q. What did Staff specifically request of the Company?**

15 A. Staff specifically asked the following question:

16
17 *Please explain how the contract salary expense of the President who was*
18 *employed through July 2008 was directly or indirectly related to the*
19 *provision of water service for the Company’s customers. As part of your*
20 *response, please state the number of hours worked directly for the*
21 *Company and provide timesheets specifically indentifying the number of*
22 *direct hours worked along with a description of the type of work*
23 *performed.*

24
25 **Q. What was the Company’s response?**

26 A. The President, through July 2008, estimated that he spent 20 hours per week on tasks
27 related to water services for the Company’s customers. In that position, the President:

28
29

- Provided strategic planning and vision for the Company;

- Hired and worked directly with the General Manager monitoring customer service, operations, water quality and staff;
- Communicated monthly reports and updates to ownership;
- Reviewed all contracts and coordinated with legal counsel;
- Established and maintained policies and procedures to insure consistency with management policies; and,
- Created annual action plans detailing projects and goals for upcoming years.

Q. Does Staff find the Company's support adequate?

A. No. There is no indication of what the "not dedicated" employees actually worked on-- only vague statements and guesses as to the percentage that was charged to the Company.

Q. Is this type of accounting practice in accordance with NARUC?

A. No. NARUC directs that, to the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

Q. What are direct costs?

A. Direct costs are those which can be specifically identified with a particular service or product.

Q. Can you give an example?

A. Yes. Most legal invoices that Staff reviews specify the number of hours that an attorney works on different areas of a rate case. For, example, .25 hours reviewing Staff data requests, 1 hour working on company filing, etc., along with the cost charged per each hour of work.

1 **Q. Could the Management Company have used this methodology to track the expenses**
2 **for “not dedicated” employees?**

3 A. Yes, such a methodology would be far more accurate and reliable than a vague “estimate”
4 of time spent performing an array of activities for one of a number of affiliates.

5
6 *E. 10-Year Staffing Plan*

7 **Q. Did Sahuarita provide Staff with its own 10-year staffing plan from 2006-2016 for**
8 **the Company (see Attachment D)?**

9 A. Yes. Specifically, the Company provided an organizational chart for 2007-2015 that
10 includes the positions of General Manager, Operations Manager, Customer Service
11 Manager, Controller, Water Quality Manager, as well as various laborer and operator
12 positions, based on projected growth.

13
14 **Q. Are the President, Human Resource Manager, Bookkeeper, Vice President, and**
15 **Chief Financial Officer of the Management Company included in this 10-year**
16 **staffing plan for the Company?**

17 A. No. Further, these positions are not included in the Management Staff job descriptions
18 provided and are not included in the projections in Table 4.

19
20 **Q. Does Staff have a concern with the Company chart or the number of employees that**
21 **are currently dedicated to the Company?**

22 A. No. Staff’s concern is that expenses may be included in the allocation to the Company
23 from the affiliate Management Company for salaries that are not necessary in the day-to-
24 day operations of the Company.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends that \$100,831 be removed from affiliate salaries (see Surrebuttal
3 Schedule JMM-11).
4

5 *F. Bonuses*

6 **Q. Did Staff make an adjustment for Company bonuses?**

7 A. Yes.
8

9 **Q. Why is this adjustment being proposed now in Surrebuttal Testimony, rather than in**
10 **Staff's Direct Testimony?**

11 A. When information on employee bonuses was first requested by Staff, the Company's
12 response did not detail this data. However, in response to a follow-up data request, the
13 Company indicated that it paid \$33,579 in bonuses.
14

15 **Q. Are bonuses necessary to the provision of water service?**

16 A. No. Bonus pay is not part of an employee's base salary; payment is conditional on
17 performance, so there is no guarantee that the money will actually be paid to the
18 employee. Including incentive pay in the Company's revenue requirement guarantees
19 enough money to pay employees who are not guaranteed to receive it. This is unfair to
20 ratepayers and should not be allowed.
21

22 **Q. Can you cite a recent Commission Decision in which removal of employee bonuses**
23 **was approved by the Commission?**

24 A. Yes. Decision No. 71274,¹ for Sulphur Springs Valley Electric Cooperative, removed
25 employee bonuses from rates, at page 14.

¹ Dec. No. 71274 at 14:15-16, issued September 8, 2009.

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends that \$33,579 be removed from affiliate salaries (see Surrebuttal
3 Schedule JMM-11).

4

5 *G. Pro-Forma Adjustment to Salary*

6 **Q. Has Staff now included the \$40,500 pro-forma adjustment to salary that it excluded**
7 **in the Direct Testimony?**

8 A. Yes.

9

10 **Q. Does Staff now believe the pro-forma adjustment is reasonable?**

11 A. Yes. Based on a data request from Staff, the Company responded:

12

13 *The position of Customer Service Manager was vacated in November*
14 *2007 and was not staffed again until September 29, 2008. Therefore,*
15 *during the test year, the salary for only October and November is*
16 *reflected. This is the reason for the \$40,500 adjustment requested in our*
17 *application, to cover the costs of this position for a full year.*

18

19 Additionally, this position was identified as a dedicated position in Schedule 1,
20 Compensation to Contractor, of the management service agreement, and was also
21 identified in the Company's 10-Year Staffing Plan.

22

23 **RATE CASE EXPENSE**

24 **Q. Mr. Bourassa proposes a surcharge for recovery of rate case expense. What is**
25 **Staff's position?**

26 A. Staff believes that rate case expense is an ordinary cost of doing business for a regulated
27 utility and is not an appropriate cost for an extraordinary mechanism such as a surcharge.
28 Staff believes that revenues and expenses should be included in base rate calculations as

1 part of regularly-filed rate applications that take into consideration all factors that affect
2 the Company.

3
4 **CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION ("CIAC") AMORTIZATION**

5 **Q. What is the best methodology to calculate the amortization of CIAC?**

6 A. Ultimately, the best methodology to calculate the amortization of CIAC is to identify the
7 amount of CIAC in each plant account and to multiply that amount by the depreciation
8 rate of the respective plant account. The sum of the individual amounts would represent
9 the amortization of CIAC.

10
11 **Q. Do most companies know the exact amount of CIAC included in each plant account?**

12 A. No, they do not.

13
14 **Q. When the exact amount of CIAC included in each plant account is not known, what
15 methodology does Staff recommend to calculate the amortization of CIAC?**

16 A. When the exact amount of CIAC included in each plant account is not known, Staff
17 recommends calculating a composite depreciation rate by dividing depreciation expense
18 by depreciable plant.

19
20 **Q. Has the Commission previously approved of Staff's methodology?**

21 A. Yes. With few exceptions, this methodology has been approved by the Commission for
22 all rate cases that come before the Commission.

23

1 **Q. Did Staff review Mr. Bourassa's Rebuttal Testimony concerning amortization of**
2 **CIAC?**

3 A. Yes. Mr. Bourassa claims that non-depreciable plant items should be included in the
4 composite rate calculated for the amortization of CIAC because non-depreciable plant
5 items can be purchased with CIAC.

6

7 **Q. What is Staff's response to the Company's proposal to include non-depreciable plant**
8 **items in its amortization of CIAC calculation?**

9 A. If the Company wants to move away from using a composite rate for CIAC amortization,
10 then the Company must identify the amount of CIAC for both depreciable and non-
11 depreciable plant by plant account number, and provide Staff with documentation
12 supporting the CIAC amount.

13

14 **Q. Has Mr. Bourassa made this argument before or contested Staff's methodology on**
15 **the amortization of CIAC before?**

16 A. No. However, I note this is the same methodology he is proposing in the current Bella
17 Vista Water Co. case (Docket No. W-02465A-09-0411).

18

19 **Q. To what non-depreciable plant items is he referring?**

20 A. Based on the Company's Plant-in-Service Schedules, he is referring to Account 301
21 Organization Costs in the amount of \$7,541, Account 302 Franchise Cost in the amount of
22 \$350,861, and Land and Land Rights in the amount of \$13,636.

23

24 **Q. Are organization costs and franchise costs generally paid by the Company and not**
25 **costs that are contributed by someone other than the Company?**

26 A. Yes.

1 **Q. Did Staff review these accounts, and the supporting documentation provided to it by**
2 **the Company, and what was Staff's conclusion?**

3 A. Yes. Staff's conclusion is that there is no CIAC associated with these accounts.
4

5 **Q. Are Land and Land Rights items that could be contributed by someone other than**
6 **the Company?**

7 A. Yes. However, the Company provided Staff with special warranty deeds, and also a
8 spreadsheet indicating a purchase price for the land. Therefore, Staff concludes no CIAC
9 was associated with this account.
10

11 **Q. So, in the instant case, would it be erroneous to apply Mr. Bourassa's methodology?**

12 A. Yes, in the calculation of a CIAC composite rate. The Company needs to provide
13 supporting documentation not only for these accounts, but also the depreciable plant
14 accounts. If it identifies contributions in the non depreciable accounts, it should be able to
15 identify contributions in all the plant accounts and Staff would need to review this
16 information to confirm accuracy.
17

18 **INCOME TAXES**

19 **Q. Have you read the testimony of David S. Cutler, CPA on behalf of the Company.**

20 A. Yes.
21

1 Q. Based on his Rebuttal Testimony at page 2, Mr. Cutler states that his testimony "is
2 designed to address and fill two (2) evidentiary "gaps" that were apparently present
3 in the Sunrise Water Company and Farmers Water Co. cases decided by the
4 Commission on December 23, 2009, (Decision No. 71445) and March 17, 2010,
5 (Decision No. 71510), respectively." Does the provision of the Company's K-1
6 Schedules offer any new, relevant evidence which affects Staff's stated position?

7 A. No. The Internal Revenue Service ("IRS") requires the pass-through entity to file an
8 informational return to report the individual owners' pro-rata shares of the entity's
9 income. This pro-rata share of income is reported for each owner in the Schedules K-1,
10 for the owner's use in calculating and reporting his own income tax liability. The
11 provision of the K-1 simply substantiates that the Company made its informational filing
12 as required by the IRS. This is not new, relevant information.

13
14 Q. Please respond to Mr. Bourrassa's comments that the removal of income taxes from
15 the expenses of a Limited Liability Company ("LLC") results in the LLC "being
16 treated differently than a C-Corp when there is no sound justification to do so"?

17 A. Staff does not agree. The differing treatment has a very sound basis in federal tax law.
18 The IRS *requires* that "[a]n LLC business entity must file as a corporation, partnership or
19 sole proprietorship."² Further, if not automatically classified as a corporation, an LLC can
20 file to elect its business entity classification.

21
22 Q. So the Company, if it chose, could have elected to be taxed as a subchapter "C"
23 corporation, and included income taxes as assessed by the IRS in this rate case?

24 A. Yes. Instead, the Company chose to be taxed as a partnership. According to the IRS:
25

² From the IRS web site, available at: <http://www.irs.gov/businesses/small/article/0,,id=98277,00.html>.

1 *A partnership must file an annual information return to report the income,*
2 *deductions, gains, losses, etc., from its operations, but it does not pay*
3 *income tax. Instead, it "passes through" any profits or losses to its*
4 *partners. Each partner includes his or her share of the partnership's*
5 *income or loss on his or her tax return. (Emphasis added).³*
6

7 This is clearly not a mere technical distinction as characterized by Mr. Bourassa.⁴
8

9 **Q. Please respond to Mr. Bourrassa's comments that the removal of income taxes from**
10 **the expenses of a LLC results in the ratepayers receiving an unjustified windfall"?**

11 A. Staff does not agree. In fact, just the opposite is true. If ratepayers are required to pay for
12 the individual tax liability of the LLC members, it is actually the LLC members who are
13 receiving the windfall by unfairly charging the ratepayers for their personal tax liability,
14 an expense that is not related to utility service.
15

16 **CENTRAL ARIZONA GROUND WATER REPLENISHMENT DISTRICT ("CAGR")**

17 **Q. Have you read Mr. Mark Seamans's Rebuttal Testimony on CAGR?**

18 A. Yes.
19

20 **Q. In regards to Condition No. 5, Mr. Seamans states that the June 30, 2010, date**
21 **should be revised. Please respond?**

22 A. Yes. Staff agrees and the new date should be June 30, 2012.
23

³ From the IRS web site, available at: <http://www.irs.gov/businesses/small/article/0,,id=98214,00.html>.

⁴ "Staff's challenge to the inclusion of income taxes rests merely on a technical distinction rather than reality."
Bourassa Rebuttal Testimony at p. 12.

1 **Q. As to Condition No. 6, Mr. Seamans states that this condition is too vague, and then**
2 **goes on to ask what agencies Staff is referring to and what supporting documentation**
3 **Staff needs. Can you clarify?**

4 **A. Yes. Staff is recommending that the Company provide any and all supporting**
5 **documentation that is used in the calculation of the Company's CAGR amount. Staff is**
6 **referring to any and all agencies to whom the Company provides CAGR-related**
7 **information. Staff also agrees with the Company that the word Tucson should be**
8 **substituted for Pima, on page 27, line 19.**

9
10 **Q. With reference to Condition No. 7, Mr. Seamans states that "consideration by the**
11 **Commission" is disturbing. Please respond?**

12 **A. Ultimately, it is the Commission's decision on whether to approve, deny, or modify any**
13 **adjuster mechanism at anytime. Therefore, the control of the adjuster mechanism lies**
14 **with the Commission not with the Company.**

15
16 **Q. Please respond to the Company's criticism that Condition No. 8 is too rigid?**

17 **A. To clarify once again, this is a new adjuster mechanism, one with which Staff has no**
18 **experience. There is no history or record with this adjuster mechanism. A change in the**
19 **way in which the CAGR fee is assessed would require Staff analysis and a**
20 **recommendation on any new change to the adjuster mechanism. Staff disagrees with the**
21 **implicit assertion made by the Company that it would be an abrupt change. Staff believes**
22 **that the CAGR would make known any proposed changes in methodology at least**
23 **several months in advance such change, just like it does with its membership charges,**
24 **which are projected years into the future.**

1 **Q. What is Staff's response to the Company's hypothetical question regarding**
2 **Condition No. 9 about what would happen if the CAGR fee changed from once a**
3 **year to perhaps multiple times a year?**

4 A. As with the last response, Staff would need to do an analysis and put forth a
5 recommendation on any new change to the adjustor mechanism. Again it is highly
6 unlikely that CAGR would give no advance warning of a pending change to its
7 methodology.

8
9 **Q. What is Staff's recommendation regarding the CAGR if Staff's proposed**
10 **conditions are not adopted?**

11 A. Staff recommends that the CAGR adjustor mechanism recommended by Staff should be
12 approved only if Staff's recommended conditions are also approved.

13
14 **Q. Does this conclude your Surrebuttal Testimony?**

15 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 7,418,410	\$ 8,709,357
2	Adjusted Operating Income (Loss)	\$ 170,618	\$ 408,215
3	Current Rate of Return (L2 / L1)	2.30%	4.69%
4	Required Rate of Return	12.00%	9.20%
5	Required Operating Income (L4 * L1)	\$ 890,209	\$ 801,261
6	Operating Income Deficiency (L5 - L2)	\$ 719,591	\$ 393,046
7	Gross Revenue Conversion Factor	1.6151	1.0000
8	Required Revenue Increase (L7 * L6)	\$ 1,162,216	\$ 393,046
9	Adjusted Test Year Revenue	\$ 2,215,143	\$ 2,215,143
10	Proposed Annual Revenue (L8 + L9)	\$ 3,377,359	\$ 2,608,189
11	Required Increase in Revenue (%)	52.47%	17.74%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-2 and JMM-9

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 20,957,540	\$ 2,522,688	1,2	\$ 23,480,228
2	Less: Accumulated Depreciation	1,680,847	(327,565)	3	1,353,282
3	Net Plant in Service	<u>\$ 19,276,693</u>	<u>\$ 2,850,253</u>		<u>\$ 22,126,946</u>
	<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 2,436,455	\$ 1,877,809		\$ 4,314,264
5	Less: Accumulated Amortization	251,796	-		\$ 251,796
6	Net CIAC	<u>2,184,659</u>	<u>1,877,809</u>		<u>\$ 4,062,468</u>
7	Advances in Aid of Construction (AIAC)	9,334,999	(76,082)	1	9,258,917
8	Customer Deposits	-	96,204	4	96,204
9	Deferred Income Tax Credits	338,625	(338,625)	5	-
	<u>ADD:</u>				
9	Unamortized Debt Issuance Costs	-	-		-
10	Deffered Regulatory Assets	-	-		-
11	Original Cost Rate Base	<u>\$ 7,418,410</u>	<u>\$ 1,290,947</u>		<u>\$ 8,709,357</u>

References:

Column [A]: Company as Filed
Column [B]: Schedule JMM-3
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.		[A]	[B]	[C]	[D]	[E]	[F]	[G]
			COMPANY	ADJ #1	ADJ #2	ADJ #3	ADJ #4	ADJ #5	STAFF
			AS FILED	Post-Test Year	Plant Not Used	Accumulated	Customer	Deferred Income	ADJUSTED
				Plant	And Useful	Depreciation	Deposits	Taxes	
				Ref. Sch JMM-4	Ref. Sch JMM-5	Ref. Sch JMM-6	Ref. Sch JMM-7	Ref. Sch JMM-8	
			\$	\$	\$	\$	\$	\$	
PLANT IN SERVICE:									
1		Organization Cost	7,541	-	-	-	-	-	7,541
2	301	Franchise Cost	350,861	-	-	-	-	-	350,861
3	302	Land and Land Rights	13,636	-	-	-	-	-	13,636
4	303	Structures and Improvements	171,671	-	-	-	-	-	171,671
5	304	Collecting and Impounding Res.	-	-	-	-	-	-	-
6	305	Lake River and Other Intakes	-	-	-	-	-	-	-
7	306	Wells and Springs	-	-	(251,483)	-	-	-	-
8	307	Infiltration Galleries and Tunnels	800,396	-	-	-	-	-	548,913
9	308	Supply Mains	-	-	-	-	-	-	-
10	309	Power Generation Equipment	335,668	-	-	-	-	-	-
11	310	Electric Pumping Equipment	43,912	-	-	-	-	-	335,668
12	311	Water Treatment Equipment	18,694	-	-	-	-	-	43,912
13	320	Water Treatment Plant	-	-	-	-	-	-	18,694
14	320	Distribution Reservoirs & Standpipe	-	-	-	-	-	-	-
15	330	Transmission and Distribution Mains	1,811,998	-	-	-	-	-	1,811,998
16	331	Services	10,162,557	-	(30,250)	-	-	-	10,132,307
17	333	Meters	2,081,553	-	(30,159)	-	-	-	2,051,394
18	334	Hydrants	1,222,335	-	(15,673)	-	-	-	1,222,335
19	335	Backflow Prevention Devices	672,037	-	-	-	-	-	656,364
20	336	Other Plant and Miscellaneous Equipment	816	-	-	-	-	-	816
21	339	Office Furniture and Fixtures	-	-	-	-	-	-	-
22	340	Transportation Equipment	283,991	-	-	-	-	-	283,991
23	341	Stores Equipment	146,129	-	-	-	-	-	146,129
24	342	Tools and Work Equipment	-	-	-	-	-	-	-
25	343	Laboratory Equipment	13,856	-	-	-	-	-	13,856
26	344	Power Operated Equipment	132	-	-	-	-	-	132
27	345	Communications Equipment	-	-	-	-	-	-	-
28	346	Miscellaneous Equipment	11,818	-	-	-	-	-	11,818
29	347	Other Tangible Plant	695	-	-	-	-	-	695
30	348	Total Plant in Service - Actual	962,974	-	-	-	-	-	962,974
31		Post Test-Year Plant	19,113,270	-	-	-	-	-	18,785,705
32		Total Plant in Service	1,844,270	2,850,253	-	-	-	-	4,694,523
33		Less: Accumulated Depreciation	\$ 20,957,540	\$ -	\$ (327,565)	\$ -	\$ -	\$ -	\$ 23,480,228
34			1,680,847	-	-	(327,565)	-	-	1,353,282
35				-	-		-	-	-
36		Net Plant in Service	\$ 19,276,693	\$ -	\$ (327,565)	\$ 327,565	\$ -	\$ -	\$ 22,126,946
37									
38		LESS:							
39		Contributions in Aid of Construction (CIAC)							
40		Less: Accumulated Amortization	\$ 2,436,455	1,877,809	-	-	-	-	\$ 4,314,264
41		Net CIAC (L25 - L26)	251,796	-	-	-	-	-	251,796
42		Advances in Aid of Construction (AIAC)	2,184,659	1,877,809	-	-	-	-	4,062,468
43		Customer Deposits	9,334,999	-	(76,082)	-	-	-	9,258,917
44		Deferred Income Taxes	-	-	-	-	96,204	(338,625)	96,204
45			338,625	-	-	-	-	-	-
46			-	-	-	-	-	-	-
47		ADD:							
48		Unamortized Debt Issuance Costs	-	-	-	-	-	-	-
49		Deferred Regulatory Assets	-	-	-	-	-	-	-
50									
51		Original Cost Rate Base	\$ 7,418,409	\$ (1,877,809)	\$ (251,483)	\$ 327,565	\$ (96,204)	\$ 338,625	\$ 8,709,357

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Post-Test Year Plant	\$ 1,844,270	\$ 2,850,253	\$ 4,694,523

Based on Staff Engineering Report Table I-1.

Remove Post-Test Year Plant (Based on Staff Engineering Report Table I-1) \$ (1,844,270)

Add Post-Test Year Plant (Arsenic Treatment Facility) \$ 4,694,523

\$ 2,850,253

DESCRIPTION	[A]	[B]	[C]
	COMPANY AIAC AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
Contributions in Aid of Construction	\$ 2,436,455	\$ 1,877,809	\$ 4,314,264

Loan forgiveness amount 40% of \$4,694,523 = \$1,877,809

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	307	Wells & Springs	\$ 800,396	\$ (251,483)	\$ 548,913
2	331	Transmission & Distribution Mains	\$ 10,162,557	\$ (30,250)	\$ 10,132,307
3	333	Services	\$ 2,081,553	\$ (30,159)	\$ 2,051,394
4	335	Hydrants	\$ 672,037	\$ (15,673)	\$ 656,364
5			<u>\$ 13,716,543</u>	<u>\$ (327,565)</u>	<u>\$ 13,388,978</u>

Based on Staff Engineering Report Table H-1.

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AIAC AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
13	Advances in Aid of Construction (AIAC)	\$ 9,334,999	\$ (76,082)	\$ 9,258,917

REFERENCES:

Column [A]: Company Filing
Column [B]: Testimony JMM
Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 1,680,847	\$ (327,565)	\$ 1,353,282

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-7

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Customer Deposits	\$ -	\$ 96,204	\$ 96,204

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-8

RATE BASE ADJUSTMENT NO. 5 - DEFERRED INCOME TAXES

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Deferred Income Taxes	\$ 338,625	\$ (338,625)	\$ -

To Remove Deferred Income Taxes

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Metered Water Sales	\$ 2,057,901	\$ -		\$ 2,057,901	\$ 393,046	\$ 2,450,947
3	Water Sales-Unmetered	-	-		-	-	-
4	Other Operating Revenue	157,242	-		157,242	-	157,242
5	Intentionally Left Blank	-	-		-	-	-
6	Total Operating Revenues	\$ 2,215,143	\$ -		\$ 2,215,143	\$ 393,046	\$ 2,608,189
7							
8	<u>OPERATING EXPENSES:</u>						
9	Salaries and Wages	\$ -	\$ -		\$ -	\$ -	\$ -
10	Purchased Wastewater Treatment	4,256	-		4,256	-	4,256
11	Sludge Removal Expense	147,364	-		147,364	-	147,364
12	Purchased Power	-	-		-	-	-
13	Fuel for Power Production	11,866	-		11,866	-	11,866
14	Chemicals	75,423	-		75,423	-	75,423
15	Materials & Supplies	30,131	-		30,131	-	30,131
16	Contractual Services, Legal&Engr	770,603	(135,161)	1 & 2	635,442	-	635,442
17	Contractual Services - Other	-	-		-	-	-
18	Contractual Services - Testing	-	-		-	-	-
19	Equipment Rental	8,750	1,632	3	10,382	-	10,382
20	Rents - Building	13,195	(11,299)	4	1,896	-	1,896
21	Transportation	22,358	-		22,358	-	22,358
22	General Liability Insurance	21,111	-		21,111	-	21,111
23	Insurance - Other	-	-		-	-	-
24	Regulatory Commission Expense	-	-		-	-	-
25	Regulatory Commission Expense - Rate Case	75,000	(30,000)	5	45,000	-	45,000
26	Misceallenous Exp	14,724	-		14,724	-	14,724
27	Bad Debt Expense	109	-		109	-	109
28	Depreciation Expense	610,853	60,547	6	671,400	-	671,400
29	Depreciation	-	-		-	-	-
30	Taxes other than Income	11,602	-		11,602	-	11,602
31	Property Taxes	122,230	(18,366)	7	103,864	6,211	110,075
32	Income Taxes	104,948	(104,948)	8	-	-	-
33	Intentionally Left Blank	-	-		-	-	-
34	Total Operating Expenses	\$ 2,044,524	\$ (237,595)		\$ 1,806,928	\$ 6,211	\$ 1,813,139
35	Operating Income (Loss)	\$ 170,618	\$ 237,595		\$ 408,215	\$ 386,834	\$ 795,050

References:

Column (A): Company Schedule C-1
Column (B): Schedule JMM-10
Column (C): Column (A) + Column (B)
Column (D): Schedules JMM-1
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Affiliate Management Fee ADJ #1	(C) Beverage Expense ADJ #2	(D) Water Testing Expense ADJ #3	(E) Rent Expense ADJ #4	(F) Rate Case Expense ADJ #5	(G) Depreciation Expense ADJ #6	(H) Property Tax Expense ADJ #7	(I) Income Tax Expense ADJ #8	(J) STAFF ADJUSTED
1	REVENUES:										
2	Metered Water Sales	\$2,057,901	-	-	-	-	-	-	-	-	2,057,901
3	Water Sales-Untermetered	-	-	-	-	-	-	-	-	-	-
4	Other Operating Revenue	157,242	-	-	-	-	-	-	-	-	157,242
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
6	Total Operating Revenues	\$2,215,143	-	-	-	-	-	-	-	-	2,215,143
7											
8	OPERATING EXPENSES:										
9	Salaries and Wages	-	-	-	-	-	-	-	-	-	-
10	Purchased Water	4,256	-	-	-	-	-	-	-	-	4,256
11	Purchased Power	147,364	-	-	-	-	-	-	-	-	147,364
12	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-
13	Chemicals	11,866	-	-	-	-	-	-	-	-	11,866
14	Repairs and Maintenance	75,423	-	-	-	-	-	-	-	-	75,423
15	Materials and Supplies	30,131	-	-	-	-	-	-	-	-	30,131
16	Outside Services	770,603	-	-	-	-	-	-	-	-	770,603
17	Outside Services - Other	-	(134,410)	(751)	-	-	-	-	-	-	-
18	Outside Services - Legal	-	-	-	-	-	-	-	-	-	-
19	Water Testing	-	-	-	1,632	-	-	-	-	-	-
20	Rents	8,750	-	-	-	-	-	-	-	-	8,750
21	Transportation Expenses	13,195	-	-	-	(11,299)	-	-	-	-	1,896
22	Insurance - General Liability	22,358	-	-	-	-	-	-	-	-	22,358
23	Insurance - Health and Life	21,111	-	-	-	-	-	-	-	-	21,111
24	Regulatory Commission Expense	-	-	-	-	-	-	-	-	-	-
25	Regulatory Commission Expense - Rate Case	75,000	-	-	-	-	(30,000)	-	-	-	45,000
26	Miscellaneous Expense	14,724	-	-	-	-	-	-	-	-	14,724
27	Bad Debt Expense	109	-	-	-	-	-	60,547	-	-	109
28	Depreciation Expense	610,853	-	-	-	-	-	-	-	-	610,853
29	Amortization of CIAC	-	-	-	-	-	-	-	-	-	-
30	Taxes Other than Income	11,602	-	-	-	-	-	-	-	-	11,602
31	Property Taxes	122,230	-	-	-	-	-	-	(18,366)	-	103,864
32	Income Taxes	104,948	-	-	-	-	-	-	-	(104,948)	-
33	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
34	Total Operating Expenses	\$2,044,524	(134,410)	(751)	1,632	(11,299)	(30,000)	60,547	(18,366)	(104,948)	1,806,930
35	Operating Income (Loss)	\$ 170,619	\$ 134,410	\$ 751	\$ (1,632)	\$ 11,299	\$ 30,000	\$ (60,547)	\$ 18,366	\$ 104,948	\$ 408,213

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-11

OPERATING INCOME ADJUSTMENT NO. 1 - MANAGEMENT FEES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Outside Service	\$ 770,603	\$ (134,410)	\$ 636,193
2				
3	Staff Calculation:			
4	Remove "Not Dedicated" Salary Expense	\$ 100,831		
5	Remove Bonuses	33,579		
6	Adjustment	\$ 134,410		
7				
8	Remove Pro-forma Adjustment	\$ -		
9				
10	Total Adjustment lines 6 and 8	\$ 134,410		

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 2 - BEVERAGE EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Outside Service	\$ 636,193	\$ (751)	\$ 635,442

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 3 - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing Expense	\$ 8,750	\$ 1,632	\$ 10,382

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 4 - RENT EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Rents	\$ 13,195	\$ (11,299)	\$ 1,896

Staff Calculation:

Remove Rental Expense of RR HOA	
8 months x \$1,530	\$ 12,240
Remove Temporary Fence Rental	\$ 84
Plus 8 months of Rent at New Facility	
8 months x \$128.13	\$ (1,025)
Adjustment	\$ 11,299

References:

Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-15

OPERATING INCOME ADJUSTMENT NO. 5 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Rate Case Expense	\$ 75,000	\$ (30,000)	\$ 45,000

Staff Calculation:

Estimated Rate Case Cost	\$ 225,000
Normalized Over Five Years	5
	<u>45,000</u>

References:

Column (A), Company Schedule C-1
Column (B): Testimony JMM
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 6 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 7,541	\$ 7,541	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ 350,861	\$ 350,861	\$ -	0.00%	\$ -
3	303	Land and Land Rights	\$ 13,636	\$ 13,636	\$ -	0.00%	\$ -
4	304	Structures and Improvements	\$ 171,671	\$ -	\$ 171,671	3.33%	\$ 5,717
5	305	Collecting and Impounding Res.	\$ -	\$ -	\$ -	2.50%	\$ -
6	306	Lake River and Other Intakes	\$ -	\$ -	\$ -	2.50%	\$ -
7	307	Wells and Springs	\$ 548,913	\$ -	\$ 548,913	3.33%	\$ 18,279
8	308	Infiltration Galleries and Tunnels	\$ -	\$ -	\$ -	6.67%	\$ -
9	309	Supply Mains	\$ -	\$ -	\$ -	2.00%	\$ -
10	310	Power Generation Equipment	\$ 335,668	\$ -	\$ 335,668	5.00%	\$ 16,783
11	311	Electric Pumping Equipment	\$ 43,912	\$ -	\$ 43,912	12.50%	\$ 5,489
12	320	Water Treatment Equipment	\$ 18,694	\$ -	\$ 18,694	3.33%	\$ 623
13	320	Water Treatment Plant	\$ -	\$ -	\$ -	3.33%	\$ -
14	330	Distribution Reservoirs & Standpipe	\$ 1,811,998	\$ -	\$ 1,811,998	2.22%	\$ 40,226
15	331	Transmission and Distribution Mains	\$ 10,132,307	\$ -	\$ 10,132,307	2.00%	\$ 202,646
16	333	Services	\$ 2,051,394	\$ -	\$ 2,051,394	3.33%	\$ 68,311
17	334	Meters	\$ 1,222,335	\$ -	\$ 1,222,335	8.33%	\$ 101,821
18	335	Hydrants	\$ 656,364	\$ -	\$ 656,364	2.00%	\$ 13,127
19	336	Backflow Prevention Devices	\$ 816	\$ -	\$ 816	6.67%	\$ 54
20	339	Other Plant and Miscellaneous Equipment	\$ -	\$ -	\$ -	6.67%	\$ -
21	340	Office Furniture and Fixtures	\$ 283,991	\$ -	\$ 283,991	6.67%	\$ 18,942
22	341	Transportation Equipment	\$ 146,129	\$ -	\$ 146,129	20.00%	\$ 29,226
23	342	Stores Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
24	343	Tools and Work Equipment	\$ 13,856	\$ -	\$ 13,856	5.00%	\$ 693
25	344	Laboratory Equipment	\$ 132	\$ -	\$ 132	10.00%	\$ 13
26	345	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
27	346	Communications Equipment	\$ 11,818	\$ -	\$ 11,818	10.00%	\$ 1,182
28	347	Miscellaneous Equipment	\$ 695	\$ -	\$ 695	10.00%	\$ 70
29	348	Other Tangible Plant	\$ 962,974	\$ -	\$ 962,974	10.00%	\$ 96,297
30		Sub Total	\$ 18,785,705	\$ 372,038	\$ 18,413,667		\$ 619,499
31							
32		Post Test Year Plant					
33	320	Water Treatment Plant	\$ 2,566,523	\$ -	\$ 2,566,523	3.33%	\$ 85,465
	320.3	Media for Arsenic Treatment	\$ 120,000	\$ -	\$ 120,000	67.00%	\$ 80,400
34	331	Transmission and Distribution Mains	\$ 2,008,000	\$ -	\$ 2,008,000	2.00%	\$ 40,160
35		Total Plant	\$ 23,480,228		\$ 23,108,190		\$ 825,524
36							
37		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.57%				
38		CIAC: \$	4,314,264				
39		Amortization of CIAC (Line 32 x Line 33): \$	154,124				
40							
41		Depreciation Expense Before Amortization of CIAC: \$	825,524				
42		Less Amortization of CIAC: \$	154,124				
43		Test Year Depreciation Expense - Staff: \$	671,400				
44		Depreciation Expense - Company: \$	610,853				
44		Staff's Total Adjustment: \$	60,547				

References:

Column [A]: Schedule JMM-3
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 2,215,143	\$ 2,215,143
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,430,286	\$ 4,430,286
4	Staff Recommended Revenue, Per Schedule JMM-1	2,215,143	\$ 2,608,189
5	Subtotal (Line 4 + Line 5)	6,645,429	7,038,475
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,215,143	\$ 2,346,158
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,430,286	\$ 4,692,316
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	48,652	\$ 48,652
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,381,634	\$ 4,643,664
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	876,327	\$ 928,733
15	Composite Property Tax Rate (Per Company Schedule)	11.8522%	11.8522%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 103,864	
18	Company Proposed Property Tax	122,230	
19			
20	Staff Test Year Adjustment (Line 17 -Line 18)	\$ (18,366)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 110,075
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 103,864
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 6,211
24			
25	Increase to Property Tax Expense		\$ 6,211
26	Increase in Revenue Requirement		393,046
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.580293%

Sahuarita Water Company, LLC
Docket No. W-03718A-09-0359
Test Year Ended December 31, 2008

Surrebuttal Schedule JMM-18

OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ 104,948	\$ (104,948)	\$ -

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 16.00	\$ 24.75	\$ 16.00
3/4 Inch	25.00	37.13	25.00
1 Inch	40.00	61.88	40.00
1 1/2 Inch	75.00	123.76	80.00
2 Inch	120.00	198.02	128.00
3 Inch	225.00	396.03	256.00
4 Inch	375.00	618.80	400.00
6 Inch	750.00	1,237.60	800.00
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8" x 3/4" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	\$ 2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
<u>5/8" x 3/4" Meter (Residential)</u>			
First 4,000 gallons	N/A	\$ 3.3400	N/A
4,001 to 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	\$ 2.3900
3,001 to 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
<u>5/8" x 3/4" Meter (Commercial/Irrigation)</u>			
First 10,000 gallons	N/A	4.2900	N/A
Over 10,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
<u>3/4" Meter (Residential)</u>			
First 6,000 gallons	N/A	3.3400	N/A
6,001 to 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 3,000 gallons	N/A	N/A	2.3900
3,001 to 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
<u>3/4" Meter (Commercial/Irrigation)</u>			
First 15,000 gallons	N/A	4.2900	N/A
Over 15,000 gallons	N/A	5.0400	N/A
First 9,000 gallons	N/A	N/A	3.5600
Over 9,000 gallons	N/A	N/A	4.4470
<u>1" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
<u>1" Meter (Residential)</u>			
First 10,000 gallons	N/A	3.3400	N/A
10,001 to 25,000 gallons	N/A	4.2900	N/A
Over 25,000 gallons	N/A	5.0400	N/A
First 20,000 gallons	N/A	N/A	3.5600
Over 20,000 gallons	N/A	N/A	4.4470
<u>1" Meter (Commercial)</u>			
First 25,000 gallons	N/A	N/A	N/A
Over 25,000 gallons	N/A	N/A	N/A
First 20,000 gallons	N/A	N/A	3.5600
Over 20,000 gallons	N/A	N/A	4.4470
<u>1" Meter (Commercial/Irrigation)</u>			
First 10,000 gallons	N/A	3.0400	N/A
10,001 to 25,000 gallons	N/A	3.9900	N/A
First 20,000 gallons	N/A	N/A	3.5600
Over 20,000 gallons	N/A	N/A	4.4470
<u>1.5" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 50,000 gallons	N/A	3.0400	N/A
Over 50,000 gallons	N/A	3.9900	N/A

First 55,000 gallons	N/A	N/A	3.5600
Over 55,000 gallons	N/A	N/A	4.4470
<u>2" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 80,000 gallons	N/A	3.0400	N/A
Over 80,000 gallons	N/A	3.9900	N/A
First 90,000 gallons	N/A	N/A	3.5600
Over 90,000 gallons	N/A	N/A	4.4470
<u>3" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 160,000 gallons	N/A	3.0400	N/A
Over 160,000 gallons	N/A	3.9900	N/A
First 200,000 gallons	N/A	N/A	3.5600
Over 200,000 gallons	N/A	N/A	4.4470
<u>4" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 250,000 gallons	N/A	3.0400	N/A
Over 250,000 gallons	N/A	3.9900	N/A
First 350,000 gallons	N/A	N/A	3.5600
Over 350,000 gallons	N/A	N/A	4.4470
<u>6" Meter (All Classes, Except Standpipe/Construction)</u>			
First 6,000 gallons	2.0500	N/A	N/A
Over 6,000 gallons	2.7500	N/A	N/A
First 500,000 gallons	N/A	3.0400	N/A
Over 500,000 gallons	N/A	3.9900	N/A
First 750,000 gallons	N/A	N/A	3.5600
Over 750,000 gallons	N/A	N/A	4.4470
Standpipe (Construction)			
All Usage	4.5000	5.0400	4.4470
<u>Other Service Charges</u>			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 40.00	\$ 40.00	\$ 40.00
Reconnection (Delinquent)	\$ 25.00	\$ 25.00	\$ 25.00
Reconnection (Delinquent) - After Hours	\$ -	\$ 40.00	\$ 40.00
NSF Check	\$ 15.00	\$ 15.00	\$ 15.00
Meter Test (If Correct)	\$ 25.00	\$ 25.00	\$ 25.00
Deposit			
Deposit Interest**	6 percent	1 percent	6 percent
Reestablishment (within 12 months)	***	***	***
Late Payment Penalty	\$ 5.00	\$5.00 or 1.50 percent per month	\$5.00 or 1.50 percent per month
Deferred Payment	1.5 percent per month	1.5 percent per month	1.5 percent per month
Moving Meter at Customer Request	At Cost	At Cost	At Cost
Main Extension and Additional Facilities	At Cost	At Cost	At Cost
* Per Commission Rule A.A.C. R-14-2-403(B)			
** Per Commission Rule A.A.C. R-14-2-403(B)			
*** Per Commission Rule A.A.C. R-14-2-403(D) - Months off the system times the monthly minimum.			

Service and Meter Installation Charges

	Total Present Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
Service Size 5/8"	\$ -	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4"	\$ -	\$ 255.00	\$ 700.00	\$ 445.00	\$ 255.00	\$ 700.00
1"	\$ -	\$ 315.00	\$ 810.00	\$ 495.00	\$ 315.00	\$ 810.00
1-1/2"	\$ -	\$ 525.00	\$ 1,055.00	\$ 530.00	\$ 525.00	\$ 1,055.00
2" Turbine	\$ 998.00	\$ 1,045.00	\$ 1,875.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
2" Compound	\$ 1,488.00	\$ 1,890.00	\$ 2,720.00	\$ 830.00	\$ 1,890.00	\$ 2,720.00
3" Turbine	\$ 1,378.00	\$ 1,670.00	\$ 2,715.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00
3" Compound	\$ 1,928.00	\$ 2,545.00	\$ 3,710.00	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00
4" Turbine	\$ 2,208.00	\$ 2,670.00	\$ 4,160.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00
4" Compound	\$ 2,823.00	\$ 3,645.00	\$ 5,315.00	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00
6" Turbine	\$ 4,218.00	\$ 5,025.00	\$ 7,235.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00
6" Compound	\$ 5,498.00	\$ 6,920.00	\$ 9,250.00	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00
Over 6"	\$ -	At Cost	At Cost	At Cost	At Cost	At Cost

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,424	\$ 27.12	\$ 44.22	\$ 17.10	63.05%
Median Usage	5,000	26.25	42.40	\$ 16.15	61.52%
Staff Recommended					
Average Usage	5,424	\$ 27.12	\$ 31.80	\$ 4.68	17.26%
Median Usage	5,000	26.25	30.29	\$ 4.04	15.39%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 16.00	\$ 24.75	54.69%	\$ 16.00	0.00%
1,000	18.05	28.09	55.62%	18.39	1.88%
2,000	20.10	31.43	56.37%	20.78	3.38%
3,000	22.15	34.77	56.98%	23.17	4.60%
4,000	24.20	38.11	57.48%	26.73	10.45%
5,000	26.25	42.40	61.52%	30.29	15.39%
6,000	28.30	46.69	64.98%	33.85	19.61%
7,000	31.05	50.98	64.19%	37.41	20.48%
8,000	33.80	55.27	63.52%	40.97	21.21%
9,000	36.55	59.56	62.95%	44.53	21.83%
10,000	39.30	63.85	62.47%	48.98	24.62%
11,000	42.05	68.89	63.83%	53.42	27.05%
12,000	44.80	73.93	65.02%	57.87	29.18%
13,000	47.55	78.97	66.08%	62.32	31.06%
14,000	50.30	84.01	67.02%	66.77	32.73%
15,000	53.05	89.05	67.86%	71.21	34.24%
16,000	55.80	94.09	68.62%	75.66	35.59%
17,000	58.55	99.13	69.31%	80.11	36.82%
18,000	61.30	104.17	69.93%	84.55	37.93%
19,000	64.05	109.21	70.51%	89.00	38.95%
20,000	66.80	114.25	71.03%	93.45	39.89%
25,000	80.55	139.45	73.12%	115.68	43.62%
30,000	94.30	164.65	74.60%	137.92	46.25%
35,000	108.05	189.85	75.71%	160.15	48.22%
40,000	121.80	215.05	76.56%	182.39	49.74%
45,000	135.55	240.25	77.24%	204.62	50.96%
50,000	149.30	265.45	77.80%	226.86	51.95%
75,000	218.05	391.45	79.52%	338.03	55.02%
100,000	286.80	517.45	80.42%	449.21	56.63%

ATTACHMENT A

July 26, 2006

EMPLOYMENT AGREEMENT

Dear Mark,

This Agreement covers the terms of your employment with the Rancho Sahuarita Water Company as General Manager.

If, after reviewing this Agreement, you have requested changes or need clarification on any of its terms, please indicate what they are, or if you have none, please sign in the appropriate place below acknowledging your acceptance.

Position:	General Manager, Rancho Sahuarita Water Company ("Company")
Employer:	Rancho Sahuarita Management Company, LLC
Job Description:	As outlined in "Job Description & Narrative prepared by Cort Chalfant 7/16/06" and "RSWC Yearly Schedule prepared by Mike Lytle 9/8/05", both of which are attached.
Hire Date:	_____
Supervisor:	Cort Chalfant or such other person as Bob Sharpe may from time to time designate.
Initial Base Salary:	\$80,000, annually
Bonus Pool:	\$10,000, annually based on performance, prorated for any partial year of employment. The bonus pool is a completely discretionary incentive pool based on both an objective and subjective evaluation of your performance that is paid at the end of each calendar year. Bob Sharpe and your Supervisor will determine any amount of the Bonus Pool to be paid to you based in large part on their impression of your ability to execute your responsibilities as outlined in the Job Description. Some objective measures may be developed after your date of hire.
Benefits:	Pursuant to their terms and conditions, you are eligible for participation in the Rancho Sahuarita Companies 401(k) Plan, and Pacificare Insurance Plan all of which can be more fully described to you by Cindy Guantt, our Human Resources Administrator.
Employee Handbook:	This handbook is applicable to you.
Severance Package:	<u>Severance in the Event of a Sale:</u> If, after your Hire Date, the Rancho Sahuarita Water Company is sold to an unaffiliated entity (unaffiliated shall mean any entity not owned, managed, or controlled by Bob Sharpe, Fred Lewis, Cort Chalfant or other

subsequent senior managers of Rancho Sahuarita related companies including but not limited to: Rancho Sahuarita Management Company, LLC, Interchange Opportunity Fund, LLP, or Sharpe and Associates, Inc.) and the new entity then terminates your employment within ninety (90) days of the closing date of the sale for reasons other than the "Exceptions" listed hereinafter under the "Severance" provision, then you shall be entitled to a lump-sum payment thereupon equal to Eighty-Thousand Dollars, less any tax withholding required by law, upon signing a Release of All Claims acceptable to the Company.

Termination and Severance by the Company After Your Hire Date:

You are employed at will and your employment may be terminated at any time without cause. (a) If you are terminated after your Hire Date for any reason other than the "Exceptions" listed below, and such termination occurs after your 90-day Introductory Period, then upon signing a Release of All Claims acceptable to the Company you shall be entitled to a lump sum payment equal to Nine-Thousand Two Hundred and Thirty-One Dollars, less any tax withholding required by law.

(b) If you are terminated after your Hire Date for any reason other than the "Exceptions" listed below, and such termination occurs within your 90-day Introductory Period, then you shall not be entitled to a Severance Payment.

(c) Exceptions: If you are terminated after your Hire Date due to fraud, gross negligence, serious misconduct either on or off the job, a breach of fiduciary duty to the Company, a material misrepresentation of your qualifications on your resume, loss of any license or certification you must hold to perform your duties, or the disclosure through a legally consented Background Check that you have been convicted of one or more illegal acts, then you shall not be entitled to a Severance Payment.

Minimum Notice:

If, after your Hire Date, you decide to terminate your employment with the Company, then you shall provide your Supervisor with a minimum of four (4) weeks advance notice of such intent to terminate. Thereafter the Company may retain your services for all or less than all of such Minimum Notice and you shall not be entitled to a Severance Payment.

Confidentiality:

After the Effective Date adjacent to your signature below, you agree not to disclose to others or use any confidential technical or business information belonging to Rancho Sahuarita Water Company or its affiliates, except as authorized in writing, by your Supervisor. "Confidential technical or business information" means any information that you learn or originate during the course of your employment, regardless of whether it is written or

otherwise tangible, that is not generally available to the public (published articles, sales literature, press releases, Internet Website information are generally available to the public) and gives one who uses it an advantage over competition or the best interests of Rancho Sahuarita Water Company or its affiliates. The obligations set forth in this paragraph shall continue after the term of your employment with Rancho Sahuarita Water Company for a period of not less than two years.

Background Check:

Effective January 1, 2006, Rancho Sahuarita Management Company periodically conducts routine Background Checks on company personnel. Your execution of a "Release Form for Employment/Background Reports" is a condition to employment. Any personal information learned by the Company as a result of any such Background Check shall be used for internal purposes only and will not be shared with any third party for any non-Company business.

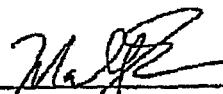
If this Employment Agreement is acceptable to you, please sign and date in the appropriate spaces below indicating your acceptance.

Sincerely,
Rancho Sahuarita Management Company



Fred Lewis
Senior Vice-President

Cc: Robert Sharpe


Accepted by: Mark Seaman

7-27-06
Effective Date:

ATTACHMENT B

Comparison of Salary Expenses of B Size Companies Regulated by the Commission

<u>B Size Company</u>	<u>Revenues</u>	<u>Salary Exp</u>
North Mohave Valley Corp	\$ 1,092,918	\$ 177,782
Valley Pioneers Water Company, Inc.	\$ 1,097,730	\$ 306,433
Camp Verde Water Services	\$ 1,152,382	\$ 413,257
Valley Utilities Water Co., Inc.	\$ 1,171,037	\$ 347,230
Sunrise Water Company	\$ 1,300,813	\$ 446,709
New River Utilities Company	\$ 1,374,100	\$ 80,000
Rio Verde Utilities, Inc.	\$ 1,402,646	\$ 145,812
Big Park Water Company	\$ 1,403,207	\$ 636,454
Largo Del Oro Water Company	\$ 1,905,111	\$ 186,384
Doney Park Water Services	\$ 1,919,196	\$ 690,275
Pueblo Del Sol Water Company	\$ 1,944,471	\$ 251,103
Pima Utility Company	\$ 2,039,761	\$ 306,409
Vail Water Company	\$ 2,378,875	\$ 277,656
Bermuda Water	\$ 3,103,252	\$ 752,628
Community Water of Greenvally	\$ 3,139,969	\$ 846,259
H2O	\$ 3,934,320	\$ 1,146,371
Average	\$ 1,897,487	\$ 438,173
Median	\$ 1,654,159	\$ 326,832
Sahuarita Water Company	\$ 2,215,413	\$ 637,012

ATTACHMENT C

MANAGEMENT SERVICES AGREEMENT
(Rancho Sahuarita Water Co.)

This Management Services Agreement ("Agreement") is dated, for reference purposes only, as of June 1, 2007 ("Effective Date"), by and between Rancho Sahuarita Water Co., LLC, an Arizona limited liability company ("Owner"), and Rancho Sahuarita Management Company, L.L.C., an Arizona limited liability company, or its assignee ("Contractor"), in recognition of the following facts and intentions:

- A. Owner operates a private water utility business ("Business") in the Town of Sahuarita, Pima County, State of Arizona.
- B. Contractor owns and operates a business that includes providing employees and record-keeping support and services.
- C. The parties desire to enter into a contractual relationship on the terms and conditions hereinafter.

NOW, THEREFORE, in consideration of the mutual promises of the parties, the parties agree as follows:

1. Independent Contractor Engagement. Owner hereby engages Contractor as an independent contractor and Contractor hereby accepts said engagement by Owner upon the terms and conditions hereinafter set forth.
2. Relationship. The parties agree that the relationship of Contractor to Owner shall be that of an independent contractor, rather than a Contractor. Contractor shall have no power or authority to act for, represent or bind Owner in any manner.
3. Control, Hours and Outside Activities. Owner shall not control or direct, or have the right to control or direct, the details, manner or means by which Contractor performs its obligations under this Agreement. Contractor shall devote such time, attention and energies to its obligations hereunder as are reasonably necessary. Contractor shall be free to engage in any activities, in addition to those required under this Agreement, so long as such activities do not interfere with the performance of its obligations hereunder.
4. Term. The term of this Agreement shall commence on the Effective Date, and shall terminate on the earlier of (a) May 31, 2012, or (b) sixty (60) days after Owner shall deliver to Contractor written notice of Owner's election to terminate this Agreement ("Termination Date").
5. Services. Contractor shall provide to Owner such employees and record-keeping support and services in connection with the Business as Owner may request, from time to time, as Owner shall deem reasonably advisable and in the best interest of the Business. Contractor shall deliver to Owner written reports, upon the request of Owner from time to time (but no more frequently than monthly), with respect to the foregoing employees and record-keeping support and services. Notwithstanding anything in this Agreement to the contrary, the employees to be provided by Contractor to provide services for Owner shall be deemed to be employees of Contractor and not

of Owner to the maximum extent permitted by law. Without limiting the generality of the foregoing, Contractor and not Owner shall be solely responsible to pay before delinquent to all applicable governmental authorities any and all employment related taxes and to file before delinquent to all applicable governmental authorities any and all employment related reports and other documents.

6. Consideration. In consideration for providing the foregoing employees and record-keeping support and services, Owner agrees that Contractor shall be entitled to receive from Owner payment of the compensation set forth on Schedule 1 attached hereto and incorporated herein by this reference. Such compensation shall be due and payable by Owner to Contractor no later than five (5) business days after invoice from Contractor.

7. Taxes. Contractor shall be responsible to file and/or pay all taxes that may be incurred by Contractor in connection with the performance of this Agreement. In addition, Contractor shall cooperate with Owner in completing such tax forms (including, but not limited to, Forms 1099-MISC and 1096) upon the reasonable request of Owner from time to time.

8. Contractor Business Expenses. Subject to Section 6 above, Contractor shall be liable to pay for the necessary business expenses that may be incurred by Contractor in its performance of this Agreement.

9. Contractor Insurance and Indemnification Requirements.

9.1 Contractor Insurance Requirements. During the time of this Agreement, Contractor shall secure and maintain in force, at Contractor's sole expense, such employment practices liability insurance coverage in connection with the employees to be provided under this Agreement by Contractor to Owner in such amounts of coverage as Contractor may determine as reasonable from time to time and consistent with Contractor's other employment practices liability insurance requirements or practices. To the extent possible, all such insurance shall name Owner as an additional insured, and shall provide that Owner shall receive notice from the respective insurance carrier no later than thirty (30) days prior to cancellation of any such policy. Such policy shall be issued by such insurance company or companies as Contractor shall reasonably approve. Contractor shall deliver to Owner copies of all such insurance policies or certificates of such insurance upon the execution of this Agreement by Contractor and delivery of same to Owner, and Contractor shall deliver to Owner copies of all renewals, extensions and endorsements of and to all such insurance policies upon Contractor's receipt of same.

9.2 Contractor Indemnification Requirements. Contractor shall indemnify, defend (with legal counsel selected by Owner) and hold Owner harmless for, from and against any and all liability, loss, cost, damage or expense, including but not limited to court costs and reasonable attorneys' fees, which from or are in connection with Contractor's performance of its obligations under this Agreement and/or which arise from or are in connection with the actions or omissions of the employees to be provided under this Agreement by Contractor to Owner, except to the extent of the negligence or willful misconduct of Owner, which indemnification obligation shall survive a termination of this Agreement for a period of two (2) years.

10. Waiver. No waiver or modification of this Agreement or of any covenant, modification or limitation herein contained shall be valid unless in writing and duly executed by the party to be charged therewith. The waiver by Owner of a breach of any provision of this Agreement by Contractor shall not operate or be construed as a waiver of any subsequent breach by Contractor. The waiver by Contractor of a breach of any provision of this Agreement by Owner shall not operate or be construed as a waiver of any subsequent breach by Owner.

11. Governing Law and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona. In the event of any dispute, venue shall be the state court located in Pima County, Arizona.

12. Attorneys' Fees. Should it be necessary for any party hereto to institute any proceeding to enforce this Agreement by reason of failure of the other party to comply with the terms and conditions set forth herein, the prevailing party shall be entitled, in addition to all other relief, to reasonable attorneys' fees and related expenses as may be determined by the court or arbitrator.

13. Assignability. Contractor shall be permitted assign any or all of its right, title or interest in and to this Agreement to any third party with notice of such assignment given to Owner.

14. Successor Clause. This Agreement shall be binding upon and shall inure to the benefit of the heirs, personal representatives, successors and assigns of the respective parties hereto.

15. Entire Agreement. This Agreement contains the entire agreement between Owner and Contractor with respect to the subject matter hereof, and supersedes all prior written or oral negotiations, commitments or agreements, if any, between Owner and Contractor.

16. Notices. All notices required to be given hereunder shall be in writing and shall be conveyed by (a) personal delivery, (b) U.S. Mail by certified or registered mail, postage prepaid, with return receipt requested or (c) facsimile transmission (provided that such notice by another approved method hereunder simultaneously), as follows:

If to Owner: 4549 East Ft. Lowell Road
 Tucson, Arizona 85712
 Attention: Cort Chalfant
 FAX: (520) 529-3137

If to Contractor: 4549 East Ft. Lowell Road

Tucson, Arizona 85712
Attention: Fred Lewis
FAX: (520) 529-3137

Each party may designate from time to time another address in place of the address set forth above by notifying the other party in the same manner as provided in this Section 16.

17. Time of Essence. Time is of the essence of each and every provision hereof.

18. Severability. Each and every provision contained in this Agreement is severable and, in the event that any provision herein shall be determined to be invalid or unenforceable by any court or arbitrator of competent jurisdiction, this Agreement shall be interpreted as if such invalid or unenforceable provision was not contained in this Agreement.

19. Interpretation. Contractor and Owner enter into this Agreement freely and voluntarily, after having received independent legal advice from counsel of their own choosing concerning the legal requirements and effects of this Agreement. Although counsel for Owner prepared this Agreement, this Agreement shall not be construed against Owner in any manner or to any degree.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective as of the date first written above.

OWNER:

Rancho Sahuarita Water Co., LLC, an Arizona limited liability company

By Sharpe & Associates, Inc., an Arizona corporation, its Manager

By

Robert M. Sharpe, President

CONTRACTOR:

Rancho Sahuarita Management Company, L.L.C., an Arizona limited liability company

By MKS Equitas Investment Group, Ltd. An Arizona corporation, Member

By:

Fred Lewis, President

SCHEDULE 1

COMPENSATION TO CONTRACTOR

Employee Name	Employee Pay Rate	Employee Pay Frequency	Status	Responsibility
Cindy Gauntt	\$ 252.29	Bi-weekly	Not dedicated	Human Resources
Fred Lewis	\$ 1,636.55	Bi-weekly	Not dedicated	RSMC Controller
Cort Chalfant	\$ 2,730.91	Bi-weekly	Not dedicated	Senior Manager
Hortencia Lopez	\$ 406.29	Bi-weekly	Not dedicated	File Clerk
Rita Lugo	\$ 219.29	Bi-weekly	Not dedicated	Accounts Payable
Mike Bowman	\$ 1,633.68	Bi-weekly	Not dedicated	Land Development
Ray Gauthier	\$ 2,283.29	Bi-weekly	Dedicated	Operations Manager
Mark Seamans	\$ 4,274.13	Bi-weekly	Dedicated	General Manager
Jenna Allen	\$ 1,599.51	Bi-weekly	Dedicated	Customer Service Rep.
Diane McKenzie	\$ 2,667.78	Bi-weekly	Dedicated	Customer Service Mgr.
Alejandro Novoa	\$ 1,718.19	Bi-weekly	Dedicated	Laborer
Paul Martinez	\$ 2,695.20	Bi-weekly	Dedicated	Water Quality Mgr.
Fred Rodriguez	\$ 1,774.80	Bi-weekly	Dedicated	Mechanic
Marian Homiak	\$ 2,538.90	Bi-weekly	Dedicated	Controller
Raul Maldonado	\$ 1,774.80	Bi-weekly	Dedicated	Water Operator II

The bi-weekly payrates shown herein include FICA, employer paid health insurance, and 401K matching expense plus a 25% markup to cover general overhead and profit. This schedule of values is representative of the level of compensation occurring bi-weekly as of the date hereof but is subject to change as actual staff hours are added or deducted based on the demands of Owner. Actual compensation shall be based on the actual costs for labor incurred by Contractor (inclusive of full-time dedicated water personnel plus allocated staff not dedicated to water operations) plus 25% for Overhead and Profit. In addition, this schedule of values does not reflect year-end employee bonuses which shall be passed through by Contractor to Owner in the same manner as regular monthly billings.

ATTACHMENT D

Rancho Sahuarita Water Company



10 Year Staffing Plan

2006-2016

prepared by

**Mark J Seamans
General Manager**

Rancho Sahuarita Water Company



Staffing Plan Summary

The Rancho Sahuarita Water Company has experienced explosive growth since it's inception in 1999. There are currently 3870 services connected to the system. Growth is anticipated to continue as the development expands over the next 15-20 years. In an effort to keep up with the growth, the water company must maintain an adequate staffing level. This plan will identify the workload of current staff and project when new staff must be added.

This plan will assume a new field staff member will be added for every 1000 new service connections. Assuming the development is 1/3 built out at this time, there is anticipated to be at least 7,000 new connections by the end of the project. That equates to 7 new staff members to maintain the level of service currently being provided to the customers in Rancho Sahuarita and Rancho Resort. This plan will look at the next 10 years and will be revised annually. This plan does not take into account the addition of Rancho Maria since that project has not been finalized at this time.

Staffing Calculations

The basis for adding one new field staff member for every 1000 service connections was calculated by analyzing the current work load in available hours worked per year and dividing by the number of service connections. Table 1 of this plan shows that calculation is equal to 1.5 hrs dedicated to each service meter.

Work hours were calculated by multiplying 3 current field staff members by a 40 hr workweek by 52 weeks for a total of 2080 hrs. Subtracted from that are the anticipated vacation and holidays for current staff in the work year. That result was 136 hrs, subtracted from 2080 leaves 1944 available work hours per employee. The sum of the 3 field staff equals 5832 hrs.

The workload was analyzed by taking into account the daily activities of the combined staff and is shown in Table 2. Work was broken into Non-maintenance and maintenance activities. Each task was assigned an approximate time to complete and then multiplied out to show the yearly hours required. The total sum

Rancho Sahuarita Water Company



of the workload is 5917 hrs. The result of dividing the workload hours of 5917 by the current service connections of 3870 equals to the 1.5 hr/connection.

10 yr Staffing Projections

Tables 3 & 4 show the projected 10-year staffing plan. This plan does not take into account any additions to the system related to Rancho Maria. Should that project materialize, staffing levels will have to be accelerated. New staff will be added at each 1000 service connection point as indicated above.

The table shows an addition of a mechanic in January 2007. This position is to keep staffing at the current level with the promotion of Ray Gauthier to Operation Manager. The mechanic will report to the Operations Manager and will be responsible for all preventative maintenance work. A job full description is in the appendix. It is also anticipated that as workload allows, the mechanic duties can include maintenance at the facilities currently being supported by the construction group. Should this be the case, both groups will share the mechanics salary.

The water company is projected to cross the 4000 service connection mark in late 2nd qtr 2007. At that time, based on the previously mentioned calculation, a new Operator II will be added. The next projected 1000-service connection intervals are in 1st qtr 2010, 4th qtr 2012, and 3rd qtr 2015. A new Operator II will be added at each time. The Operator II job description is in the appendix.

It is anticipated that in the 1st qtr 2008, the water company will begin treating the groundwater for arsenic to come into compliance with the EPA Arsenic rule. A licensed treatment Operator I will have to be added at that time. The new treatment operator will be responsible for the day-to-day operation of the treatment plant, coordinate maintenance with the operations group and do all compliance sampling at the plant. The Operator I job description is in the appendix. The treatment operator will report to the Water Quality Manager and assist in the collection of compliance monitoring samples as needed.

A clerical position is slated for FY 2009 in anticipation of the water company building being completed. This position will report to the Customer Service Manager and fulfill the general receptionist and clerical duties.

Rancho Sahuarita Water Company



10-Year Vehicle Projections

Table 5 breaks down the projected vehicle requirements anticipated for the water company for the next 10 years. It is projected that at least 8 new vehicles will be necessary to meet the growth of the company. There is also projected in FY 2013 and 2014 costs to replace vehicles purchased in FY 2006 that will be 7 & 8 years old and with very high mileage.

In FY 2007, the water company will be requesting 3 vehicles. First vehicle will be for the administration staff (GM, Controller, CSM). This vehicle will be used to travel to meetings, corporate, etc. A Ford Explorer would be the preferred vehicle over a sedan type for potential travel into work areas around the development. The second vehicle is an F-450 service vehicle for the mechanic. This vehicle will be outfitted with a 1-ton crane hoist to lift booster pumps and motors, etc. The vehicle will also have an air compressor for supply to tools. The 3rd vehicle projected is an F-150 PU for the Operations Manager in 3rd qtr 2007. It is anticipated at this time his F-250 will be given to the new Operator II scheduled for that time.

In FY 2008, the water company will be requesting 2 vehicles. First vehicle is an F-150 PU to be used by the Water Quality Manager as a replacement for the Toyota Tacoma currently being used by the Water Company. This Toyota has over 126,000 miles as of 12-01-06 and will be used in FY 2007 yr by the WQM. It is anticipated the vehicle will be over 150,000 miles by 2008. The second vehicle is an F-250 service vehicle for the projected Treatment Operator for use at the Arsenic plant and other areas as mentioned above.

Future vehicles are projected as new Operator II's are added to staff. F-250 Service vehicles will be projected for FY's 2010, 2012, 2015.

10-Year Tool and Equipment Projections

Table 6 breaks out the tool and equipment needs for the next 10 years over and above the annual budget requests. This breakdown reflects the addition of the projected staff as outlined in this document. In FY 2007, with the addition of the mechanic, a large volume portable air compressor and associated tools will be need for the mechanic. Incidental tools are requested for the projected Operator II's as

Rancho Sahuarita Water Company

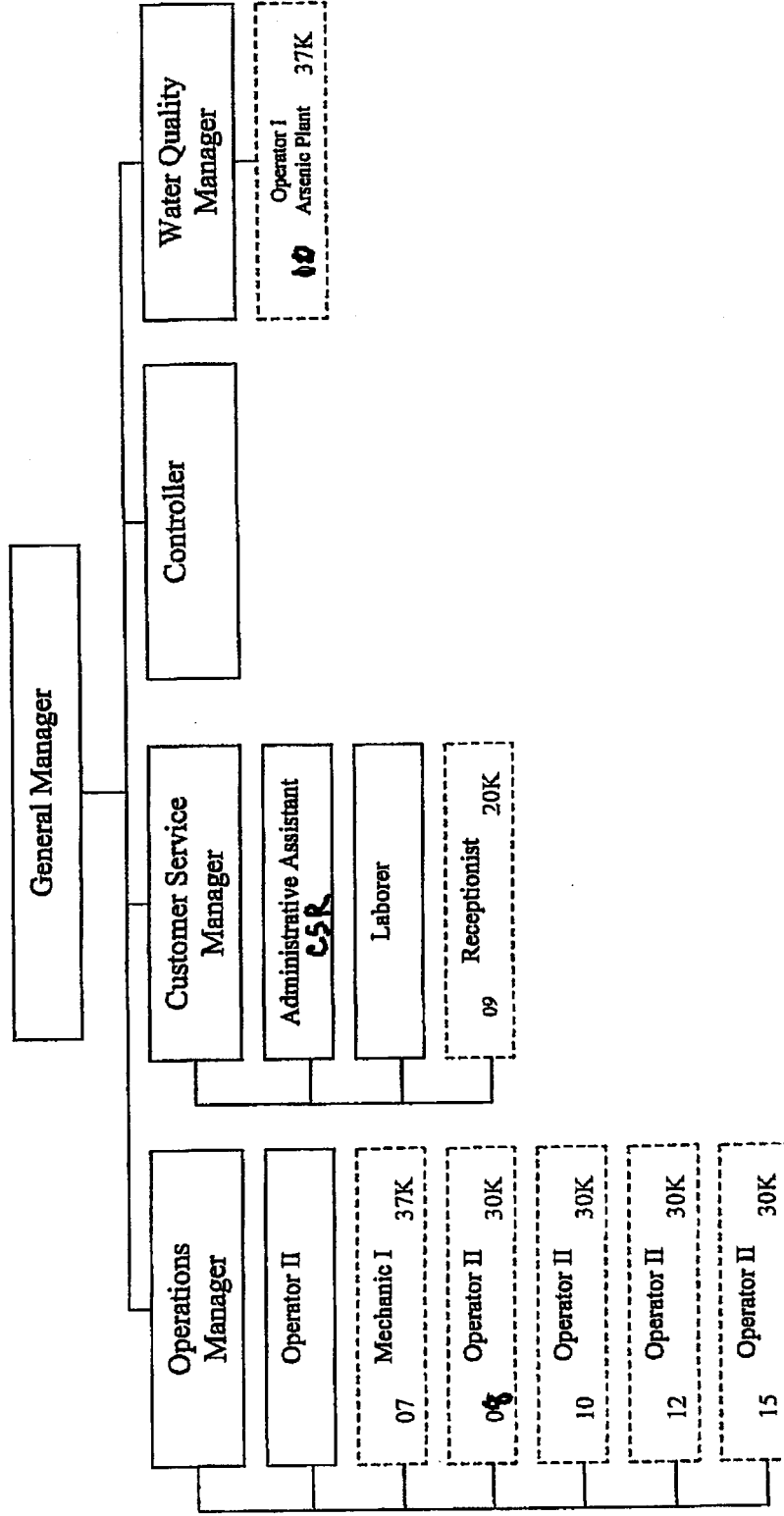


they are hired. Also requested in FY 2007 is money for the WQM for field instruments required for water sampling.

Rancho Sahuarita Water Company



Organizational Chart 2007-2015



Rancho Sahuarita Water Company



Staff Positions 2006-2016

Management Staff

Positions	Salary Range	Manager
General Manager	\$80,000 + Bonus	Mark Seamans
Duties: Responsible for each unit of the utility. Responsible for planning, organizing, and directing the day to day operations of the utility. Responsible for the development and implementation of the annual and 10 yr proforma budget. Foremost advocate for the growth of the company.		
Operations Manager	\$40,000-65,000	Ray Gauthier
Duties: Supervise O&M Staff (4-6), develop and maintain preventative maintenance program, schedules all field maintenance work, SCADA oversight and development, develop and maintain ARV maintenance program, develop and maintain fire hydrant PM program, develop and maintain valve exercising program, assist GM with plan reviews, liaison with builders and contractors, training staff, fill in where needed.		
Customer Service Manager	\$40,000-65,000	Diane McKenzie
Duties: Supervise C.S. Staff (3-4), Billing and invoicing, Bluestake coordination, inspection coordination, track meter installs, track meter turn offs, payroll.		
Controller	\$40,000-65,000	Marian Homiak
Duties: Budgeting and planning, L.E.A. management and tracking, assist GM with ACC reporting and documentation, cash flow, etc.		
Water Quality Manager	\$40,000-65,000	Paul A. Martinez
Duties: Develop compliance monitoring plan (formerly MAPS) for ADEQ, compliance reporting to ADEQ, ADWR reporting and monitoring, keep current with new rule changes and regulation updates, develop all water company plans related to water quality, develop back flow program		

Rancho Sahuarita Water Company



Staff Positions 2006-2016

Field Staff

Positions	Salary Range	Status	Staff
Operator I	\$34,000 – 40,000	1 position open	Projected 2010
Duties: Report to WQM Manager - all compliance sampling, treatment plant operations, well inspections, after hours and emergency call outs, vehicle maintenance, customer complaints, etc.			
Operator II	\$27,000 – 30,000	1 Current 4 open	Brad 1 ea - '08, '10, '12, '15
Duties: Report to O&M Manager - bluestake, meter sets, meter inspections, meter reads, assist Operator I in maintenance, will work on ARV, Fire Hydrant and Backflow programs.			
Mechanic I	\$34,000 – 40,000	1 position open	Projected 2007
Duties: Report to O&M Manager - All preventative maintenance on pumps, motors, valves, ARV's, backflow and fire hydrants. Assists in pm's for construction unit.			
Laborer	\$23,000 – 27,000	Current	Alex
Duties: Report to C.S. Manager – meter sets, contractor service requests, meter inspections, meter reading			
Administrative Assistant	\$23,000 – 27,000	Current	Vacant
Duties: Report to C.S. Manager – Monthly billing, Filing, customer service, phone calls, etc.			
Clerk/Receptionist	\$20,000 – 25,000	1 position open	Projected 2009
Duties: Report to C.S. Manager – Answer phones, general secretarial, customer service, mail pick up			

Industry Comparisons - Staffing per Connections

	Flowing Wells Irrigation	Community Water	Las Quintas	Oro Valley	Rancho Sahuarita Water Company
Number of connections	3,500	6,000	1,200	13,667	3,729
Population served	10,500	18,000	3,600	41,000	11,187
Total Staff	11	16	4	35	7
Connections/staff	318	375	300	390	533
Population/staff	955	1125	900	1171	1598

*PDEQ uses 3 persons per connection to calculate population.

Table 1
Calculated Work Hours per Connection

Staff	Hrs per week	Weeks per yr	Total hrs	Holiday hrs off		Hours off	Available hrs
				7 holidays*8/d	10d*8/h		
Ray	40	52	2080	56	80	136	1944
Alex	40	52	2080	56	80	136	1944
Brad	40	52	2080	56	80	136	1944
sum of 3 staff							5832

Available hrs	Work hrs	Balance
5832	5917	-85 Shows the need for 3 field staff
3888	5917	-2029 Ray gets promoted to manager in Jan 07 so he needs to be replaced Hrs include travel time between sites. Based on 8 hr work day

Number of work hours to meet current needs vs number of services in system

Hours	Services	hrs/ser
5917	3870	1.53

New services	hrs/ser	hrs needed per 1000 meters
1000	1.53	1529

Note***
When the Arsenic facility comes on line we will require a licensed treatment operator
There is a potential to staff 1/2 mechanic and share with David Eves for facilities maintenance

Recommendation
Replace Ray with a mechanic 1 to cover his hours lost due to his promotion

Table 2
Calculated Task Hours per Year

5917.0

Total Hrs per year

Staffing Plan

Area-Maintenance	Tasks	Hours Required	Times per Month	Months per yr	Total Hrs
Customer Meters	Meter Set	1	25	12	300.0
	-AXL Nipple				
	Meter Repairs	1	30	12	360.0
	-AXL Repronram				
	-Leak				
	Final Service Inspection	0.5	46	12	270.0
	-Check Level, Depth, Position, block				
	Meter Reads	5	1	12	60.0
	-Monthly manual	8	1	12	72.0
Construction Meters					
	Meter reads	3	4	12	144.0
Wells					
	Meter Reads, Inspection	5	4	12	240.0
Bluestake					
	Mark, record .5 hrs x 10d x 5dW	25	4	12	1200.0
Customer Calls					
	Water Leaks, High Usage, Odor, etc	1	8	12	96.0
Inventory					
	Trailer	8	1	12	96.0
	Trucks - 3 @ 8 hr ea	24	1	12	288.0
Site Clean Up					
	Tree trim, weeds, trash 4 sites @ 2 hr ea	8	1	12	96.0
System Inspections					
	FH, Meter & Line Initials 3 hrs (Ray doing this job) from job to job	3	30	12	1080.0
Area-Maintenance					
Arsenic Plant estimated	Daily check				
	4 hrs x 5dW	20	4	12	960.00

Area-Maintenance	Tasks	Hours Required	Times per Month	Months per yr	Total Hrs
Compressors	Monthly Inspections	1	1	12	12.00
	Maintenance - Clean				
	air filter, change oil, replace belts				
	1 hr 4 2xYr	2	1	4	8.00
Boosters					
	Monthly Inspections				
	1 trialla x 4 booster allas	4	1	12	48.00
	Maintenance - Clean				
	grease, vibration check, lamp checks				
	3 trialla x 4 allas 2xYr	12	1	2	24.00
Wells					
	Weekly Inspections				
	check oil, noise, lamp	0.5	4	12	24.00
	Maintenance - Clean				
	vibration analysis, lamp checks	2	1	4	8.00
	Motor Oil Changes				
	2 triall 2xYr	2	1	2	4.00
ARV approx 100					
	Monthly Inspection				
	Maintenance - Clean	0.5	100	12	600.00
	disassemble-reassemble	1	100	1	100.00
Fire Hydrants approx 300					
	Maintenance - Tighten Caps turn screw	0.5	300	1	150.00
System Flushing Dead ends - ~25					
	8 mins ea depending on clarity and residual	1.25	1	4	5.00
Chlorination					
	Weekly check	0.5	4	12	24.00
Training					
	Various training for field crews				
	8 hrs x 8 days x 2 staff	128	1	1	128.00
Water Q Sampling					
	Micro, Arsenic, Chlorine, etc				
	2 triall x 5dW	10	4	12	480.00

Table 3
Projected Staffing Needs Based on New Connections
2007-2015

Assumes 25 new meters/month for RS and 5 new meters/month for RR
Number of new meters per year for Rancho Sahuarita and Rancho Resort
30/m x 12 m/y 360

2007	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	3870	3900	3930	3960	3990	4020	4050	4080	4110	4140	4170	4200
2008	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4230	4260	4290	4320	4350	4380	4410	4440	4470	4500	4530	4560
2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4590	4620	4650	4680	4710	4740	4770	4800	4830	4860	4890	4920
2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	4950	4980	5010	5040	5070	5100	5130	5160	5190	5220	5250	5280
2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	5310	5340	5370	5400	5430	5460	5490	5520	5550	5580	5610	5640
2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	5670	5700	5730	5760	5790	5820	5850	5880	5910	5940	5970	6000
2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6030	6060	6090	6120	6150	6180	6210	6240	6270	6300	6330	6360
2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6390	6420	6450	6480	6510	6540	6570	6600	6630	6660	6690	6720
2015	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	6750	6780	6810	6840	6870	6900	6930	6960	6990	7020	7050	7080

start number

Table 4
Staff Projections w/Salaries
2007-2015

Salaries	Employees	Note	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	General Manager		\$ 80000	82,400	84,872	87,418	90,041	92,742	95,524	98,390	101,342	104,382	107,513
	Customer Service Manager		\$ 46000	47,380	48,801	50,265	51,773	53,327	54,928	56,574	58,271	60,020	61,820
	Water Quality Manager	a	\$ 49500	49,600	50,985	52,515	54,080	55,713	57,384	59,106	60,879	62,705	64,586
	Controller		\$ 42000	50,000	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239
	Operations Manager	1	\$ 33000	40,000	45,000	46,350	47,741	49,173	50,648	52,167	53,732	55,344	57,005
	Operator 2 - Brad	2	\$ 27000	30,000	30,900	31,827	32,782	33,765	34,778	35,822	36,896	38,003	39,143
	Laborer - Alex		\$ 28000	26,780	27,593	28,411	29,263	30,141	31,045	31,977	32,936	33,924	34,942
	Administrative Asst	3	\$ \$	25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619
	Mechanic	3	\$ \$	37,000	38,110	39,253	40,431	41,644	42,893	44,180	45,505	46,870	48,277
	Operator 1- As Treatment	4	\$ \$	30,000	30,900	31,827	32,782	33,765	34,778	35,822	36,896	38,003	39,143
	Operator 2	5	\$ \$			20,000	20,600	21,218	21,855	22,510	23,186	23,881	24,597
	Clerk/Receptionist	6	\$ \$										
	Operator 2	7	\$ \$										
	Operator 2	8	\$ \$										
	Operator 2	9	\$ \$										
			\$ 303,500	418,060	471,402	505,544	550,710	567,231	614,248	632,676	651,656	701,206	722,242

Note a - WQM start Dec 2006

Note 1 - Assumes Ray gets his Distribution 3 license in 2008

Note 2 - Assumes Brad gets his Distribution 1 license in 2007.

Note 3 - Mechanic/AA to start 1st qtr 2007 to assume field duties Ray was performing. Can be shared with David Eves' group

Note 4 - Assumes Arsenic Treatment is required. Duties will be shared in field, AS plant and Sampling

Note 5 - Begins 3rd qtr 2007 when RSWC crosses 4000 meters - Assumes a Distribution 1 license

Note 6 - Comes on staff when new Water Company Building is finished.

Note 7 - Begins 1st qtr 2010 when RSWC crosses 5000 meters - Assumes a Distribution 1 license

Note 8 - Begins 3rd qtr 2012 when RSWC crosses 6000 meters - Assumes a Distribution 1 license

Note 9 - Begins 3rd qtr 2016 when RSWC crosses 7000 meters - Assumes a Distribution 1 license

Table 5
Projected Vehicle Requirements
2007-2015

Area	Note	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration	1	\$	35,000									
Water Quality Manager	2	\$		30,000								
Operations	3	\$	35,000									
Operator 2 - Brad	4	\$							35,000			
Laborer - Alex	4	\$	40							35,000		
Mechanic	5	\$	85,000									
Operator 1- As Treatment	6	\$		35,000								
Operator 2	7	\$										
Operator 2	8	\$		35,000				35,000				
Operator 2	8	\$										
Operator 2	8	\$									35,000	
		\$	0	155,000	65,000	0	35,000	0	35,000	35,000	35,000	0

Note 1 - New vehicle - 1st qtr 2007 - Ford Explorer - to be used by Management for work use

Note 2 - New vehicle - 1st qtr 2008 - Ford F150 PU - to replace the Toyota Pickup

Note 3 - New vehicle - 3rd qtr 2007 - Ford F150 PU - Ray's truck gets passed to new Operator

Note 4 - Replacement vehicles for Brad and Alex - Vehicles are 7 & 8 yrs old respectively

Note 5 - New vehicle - 1st qtr 2007 - F450 with 1 ton crane

Note 6 - New vehicle - 1st qtr 2008 - F250 to be used at As Plant and field

Note 7 - Takes Ray's Truck

Note 8 - New vehicle - 1st qtr 2010 - F250

Note 8 - New vehicle - 3rd qtr 2012 - F250

Note 8 - New vehicle - 3rd qtr 2015 - F250

Table 6
Projected Tool and Equipment Needs
2007-2015

Area	Note	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Administration												
Water Quality Manager	1	\$	1,000									
Operations		\$										
Operator 2 - Brad		\$										
Laborer - Alex		\$										
Mechanic	2	\$	5,000									
Operator 1- As Treatment	3	\$		2,000								
Operator 2	3	\$	2,000			2,000						
Operator 2	3	\$						2,000				
Operator 2	3	\$									2,000	
Operator 2	3	\$										
		\$	0	8,000	2,000	0	2,000	0	2,000	0	0	0

Note 1 - Water Quality test kits and supplies

Note 2 - Tools, compressor, misc equipment

Note 3 - Tools and misc equipment

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. W-03718A-09-0359
SAHUARITA WATER COMPANY, L.L.C.)	
("SWC") FOR AN OPINION AND ORDER OF)	
THE COMMISSION (i) DETERMINING THE)	
FAIR VALUE OF THE UTILITY PROPERTY)	
OF SWC FOR RATEMAKING PURPOSES, (ii))	
FIXING A JUST AND REASONABLE RATE)	
OF RETURN THEREON, (iii) APPROVING)	
RATES AND CHARGES DESIGNED TO)	
PRODUCE REVENUES SUFFICIENT TO)	
RECOVER SWC'S COST OF SERVICE AND)	
AUTHORIZED RATE OF RETURN, AND (iv))	
PROVIDING THE RECOVERY OF CERTAIN)	
FINANCING AND OPERATING EXPENSES)	
THROUGH A SURCHARGE AND A PASS-)	
<u>THROUGH TARIFF, RESPECTIVELY</u>)	

SURREBUTTAL

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 21, 2010

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EXECUTIVE SUMMARY
SAHUARITA WATER COMPANY, L.L.C.
DOCKET NO. W-03718A-09-0359

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Sahuarita Water Company, LLC (“SWC” or “Applicant”) for this proceeding consisting of 17.8 percent debt and 82.2 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 10.3 percent return on equity (“ROE”) for the Applicant. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.5 percent for the discounted cash flow method (“DCF”) to 11.1 percent for the capital asset pricing model (“CAPM”).

Cost of Debt – Staff recommends that the Commission adopt the Company-proposed 4.2 percent cost of debt.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 9.2 percent.

Response to the Rebuttal Testimony of Applicant’s witness Mr. Thomas J. Bourassa – The Commission should reject the Company’s proposals to allow for a firm size adjustment and to rely heavily on analysts’ forecasts for DCF estimates.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Juan C. Manrique who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?

A. The purpose of my Surrebuttal Testimony in this rate proceeding is to report on Staff's updated cost of capital analysis with its recommendations regarding Sahuarita Water Company, LLC's ("SWC" or "Applicant") cost of capital and to respond to the cost of capital portion of the rebuttal testimony of SWC's witness Mr. Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

Q. Please explain how Staff's Surrebuttal Testimony for cost of capital is organized.

A. Staff's Surrebuttal Testimony for cost of capital is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on Mr. Bourassa's rebuttal testimony. Lastly, Section IV presents Staff's recommendations.

II. COST OF EQUITY AND OVERALL RATE OF RETURN

Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since it filed its Direct Testimony?

A. Yes. Staff updated its analysis to include the most updated data available.

1 **Q. What is Staff's updated COE?**

2 A. Staff's updated COE is 10.3 percent. In Staff's Direct Testimony, the COE was 10.1
3 percent.

4
5 **Q. What is Staff recommending for SWC's COE?**

6 A. Staff is recommending a COE of 10.3 percent derived from its updated cost of equity
7 estimates that range from 9.5 percent to 11.1 percent.

8
9 **Q. Did Staff update its analysis concerning the Applicant's overall rate of return?**

10 A. Yes.

11
12 **Q. What is Staff's updated overall rate of return?**

13 A. Staff's updated overall rate of return is 9.2 percent.

14
15 **Q. What is Staff recommending for SWC's overall rate of return?**

16 A. Staff is recommending an overall rate of return of 9.2 percent. Staff's recommendation is
17 based on a COE of 10.3 percent, a cost of debt of 4.2 percent and a capital structure of
18 82.2 percent equity and 17.8 percent debt, as shown in Surrebuttal Schedule JCM-1.

19

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF CAPITAL WITNESS

Mr. Bourassa's Rebuttal

Q. Mr. Bourassa addresses a list "of the alleged 'attractive attributes' Mr. Manrique has identified," then proceeds to argue the merits of each one listed.¹ Does Staff have a response to these arguments?

A. Yes. Mr. Bourassa chose to cherry-pick certain aspects of other regulatory environments to dismiss the examples given in Staff's Direct Testimony of attractive attributes of Arizona ratemaking regulation. These arguments ignore the central tenet of Staff's argument:

The unique regulatory environments of the sample companies and SWC are firm-specific risks for which investors cannot expect compensation. None of Mr. Bourassa's comments demonstrate that Arizona is a less favorable regulatory environment from those of the sample companies. Every regulatory jurisdiction has its own framework with its own specific identifiable advantages and disadvantages; however, it is the overall effect that is relevant.²

In other words, regulatory risk is a firm-specific risk whether it is in Arizona or another state. Investors cannot expect to be compensated for firm-specific risks as these can be diversified away.

¹ Mr. Bourassa's Rebuttal, pages 21-25

² Manrique Direct, page 41, lines 8-13

1 **Q. Does Staff have a response to Mr. Bourassa's assertion that "Again, if analysts'**
2 **estimates already consider past growth, then Staff vastly overstates the impact of**
3 **past growth rates in its DCF model."**³

4 **A.** Yes. Mr. Bourassa makes this assertion as if the *only* factor investors look at is analysts'
5 growth rates. Investors do rely on analysts' forecasts as one factor in investment
6 decisions; however, other factors such as historical data also factor into investors'
7 investment decisions.

8
9 **IV. STAFF RECOMMENDATIONS**

10 **Q. What are Staff's recommendations for SWC's cost of capital?**

11 **A.** Staff makes the following recommendations for SWC's cost of capital:

- 12 1. Staff recommends a capital structure of 17.8 percent debt and 82.2 percent equity.
- 13 2. Staff recommends a cost of debt of 4.2 percent.
- 14 3. Staff recommends a cost of equity of 10.3 percent.
- 15 4. Staff recommends an overall rate of return of 9.2 percent.

16
17 **Q. Does this conclude your testimony?**

18 **A.** Yes, it does.

³ Mr. Bourassa's Rebuttal, page 14, lines 10-12

Sahuarita Water Company Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	17.8%	4.2%	0.7%
Common Equity	82.2%	10.3%	8.5%
Weighted Average Cost of Capital			9.2%
Company Proposed Structure			
Debt	17.2%	4.2%	0.7%
Common Equity	82.8%	10.9%	9.0%
Weighted Average Cost of Capital			9.7%

[D] : [B] x [C]
 Supporting Schedules: JCM-3 and JCM-4.

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7 Testimony

Sahuarita Water Company Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	Common <u>Equity</u>	<u>Total</u>
American States Water	46.8%	53.2%	100.0%
California Water	48.0%	52.0%	100.0%
Aqua America	56.6%	43.4%	100.0%
Connecticut Water	55.8%	44.2%	100.0%
Middlesex Water	53.3%	46.7%	100.0%
SJW Corp	<u>49.0%</u>	<u>51.0%</u>	<u>100.0%</u>
Average Sample Water Utilities	51.6%	48.4%	100.0%
SWC - Actual Capital Structure	17.8%	82.2%	100.0%

Source:

Sample Water Companies from Value Line

Sahuarita Water Company Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1999 to 2009 <u>DPS¹</u>	Dividends Per Share Projected <u>DPS¹</u>	Earnings Per Share 1999 to 2009 <u>EPS¹</u>	Earnings Per Share Projected <u>EPS¹</u>
American States Water	1.6%	3.4%	3.1%	7.7%
California Water	0.7%	1.3%	2.5%	5.9%
Aqua America	6.6%	6.5%	6.2%	12.7%
Connecticut Water	1.3%	No Projection	1.5%	No Projection
Middlesex Water	1.7%	No Projection	-0.5%	No Projection
SJW Corp	<u>5.1%</u>	<u>No Projection</u>	<u>-0.7%</u>	<u>No Projection</u>
Average Sample Water Utilities	2.8%	3.7%	2.0%	8.8%

1 Value Line

Sahuarita Water Company Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
	Retention Growth 2000 to 2009 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 2000 to 2009 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
<u>Company</u>					
American States Water	3.0%	5.4%	1.9%	5.0%	7.3%
California Water	2.0%	5.9%	3.8%	5.8%	9.7%
Aqua America	4.6%	7.2%	3.7%	8.3%	11.0%
Connecticut Water	2.5%	No Projection	0.7%	3.2%	No Projection
Middlesex Water	1.2%	No Projection	3.0%	4.1%	No Projection
SJW Corp	<u>4.0%</u>	<u>No Projection</u>	<u>0.1%</u>	<u>4.1%</u>	<u>No Projection</u>
Average Sample Water Utilities	2.9%	6.2%	2.2%	5.1%	9.3%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Sahuarita Water Company Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	Symbol	Spot Price 6/2/2010	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
Company	AWR	34.64	19.61	1.8	0.80	0.67
American States Water	CWT	35.71	20.58	1.7	0.75	0.60
California Water	WTR	17.33	8.28	2.1	0.65	0.45
Aqua America	CTWS	21.49	12.80	1.7	0.80	0.67
Connecticut Water	MSEX	17.50	10.94	1.6	0.75	0.60
Middlesex Water	SJW	24.55	14.73	<u>1.7</u>	<u>0.95</u>	<u>0.90</u>
SJW Corp						
Average				1.8	0.78	0.65

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: $(-0.35 + [F]) / 0.67$

Sahuarita Water Company Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical ¹	2.8%
DPS Growth - Projected ¹	3.7%
EPS Growth - Historical ¹	2.0%
EPS Growth - Projected ¹	8.8%
Sustainable Growth - Historical ²	5.1%
<u>Sustainable Growth - Projected²</u>	<u>9.3%</u>
Average	5.3%

¹ Schedule JCM-5

² Schedule JCM-6

Sahuarita Water Company Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_0) ¹ 6/2/2010	Projected Dividends ² (Stage 1 growth) (D_t)				Stage 2 growth ³ (g_n)	Equity Cost Estimate (K) ⁴
		d_1	d_2	d_3	d_4		
American States Water	34.6	1.07	1.12	1.18	1.25	6.6%	9.6%
California Water	35.7	1.24	1.30	1.37	1.44	6.6%	9.9%
Aqua America	17.3	0.60	0.63	0.66	0.69	6.6%	9.9%
Connecticut Water	21.5	0.92	0.97	1.02	1.08	6.6%	10.8%
Middlesex Water	17.5	0.74	0.78	0.82	0.86	6.6%	10.7%
SJW Corp	24.6	0.71	0.74	0.78	0.83	6.6%	9.4%

Average **10.0%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

¹ [B] see Schedule JCM-7

² Derived from Value Line Information

³ Average annual growth in GDP 1929 - 2009 in current dollars.

⁴ Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
SAHUARITA WATER COMPANY, LLC FOR A)
RATE INCREASE)
_____)

DOCKET NO. W-03718A-09-0359

SURREBUTTAL

TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 21, 2010

**SURREBUTTAL SUMMARY
SAHUARITA WATER COMPANY, LLC
DOCKET NO. W-03718A-09-0359**

CONCLUSIONS

- A. Staff continues to conclude that Well No. 23 is not needed and not “used and useful” in the proceeding.
- B. Staff continues to recommend a depreciation rate of 67.0% for the arsenic treatment media under Account No. 320.3 – Water Treatment Equipment-Media for Arsenic Treatment.
- C. Staff recommends approval of the Arizona Corporation Commission/Arizona Department of Water Resources (“ADWR”) Best Management Practice (“BMP”) Tariffs with the exception of BMP 7.8. This BMP shall only become effective if and when it is approved by ADWR. If BMP 7.8 is not approved by ADWR by July 1, 2011, Sahuarita Water Company shall submit a replacement BMP for Commission consideration.

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("ACC" or "Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. Are you the same Marlin Scott, Jr. who submitted Direct Testimony on behalf of the Utilities Division?

A. Yes.

Q. What was the purpose of that testimony?

A. My Direct Testimony provided the Utilities Division Staff's ("Staff") engineering evaluation of Sahuarita Water Company, LLC ("Company") for this proceeding.

Q. What is the purpose of your Surrebuttal Testimony?

A. To provide Staff's response to the Company's Rebuttal Testimony on two issues; 1) Well No. 23, and 2) arsenic treatment – media. Staff will also provide an update of the review/approval process of the Company's submittal of the ACC/Arizona Department of Water Resources ("ADWR") Best Management Practice ("BMP") Tariffs.

WELL NO. 23

Q. Have you reviewed the rebuttal testimony of Mark F. Taylor regarding Well No. 23?

A. Yes.

1 **Q. What was Mr. Taylor's conclusion regarding Well No. 23?**

2 A. Mr. Taylor did not agree with Staff's conclusion that Well No. 23 is not needed for the
3 Company's water system. Mr. Taylor stated that Well No. 23 is needed for well
4 redundancy and concluded that because Well No. 23 provides the necessary redundancy
5 for the Company's water system, the well is "used and useful".
6

7 **Q. Does Staff agree with Mr. Taylor's conclusion that Well No. 23 provides for the
8 necessary redundancy for the water system?**

9 A. Staff agrees that Well No. 23 provides redundancy to the system, however, it provides
10 unnecessary or excess redundancy. Well No. 23 is not needed for this system according to
11 Staff's system capacity analysis as shown on page 7 of 40 of Staff's Direct Testimony.
12

13 **Q. Could you explain why Well No. 23 is not needed?**

14 A. With reference to the System Analysis on page 7 of 40 that uses the well and storage
15 capacity factors of 0.31 gallon per minute ("GPM") per connection and 358 gallons per
16 day ("GPD") per connection, respectively, Staff determined that:

17
18 a. For informational purpose, the 2008 test year customer base was approximately
19 4,670 connections.
20

21 b. The well capacity totaling 3,250 GPM (=Well No. 14 at 1,750 + Well No. 18 at
22 1,500) could adequately serve approximately 10,480 connections ($=3,250 / 0.31$).
23 Well No. 14 at 1,750 GPM alone could serve 5,645 connections, while Well No.
24 18 at 1,500 GPM alone could serve approximately 4,835 connections.
25

1 c. The storage capacity totaling 2,550,000 gallons, minus the fire flow requirement,
2 could adequately serve up to approximately 6,540 connections $((=2,550,000-$
3 $210,000) / 358)$. If the second well (Well No. 18 at 1,500 GPM) is included for the
4 storage capacity requirement, this system could adequately serve approximately
5 12,570 connections.

6
7 d. Looking forward, Figure D-1 shows a growth projection to approximately 8,000
8 total connections by December 2013. (Staff is correcting from 7,600 to 8,000 total
9 connections.)

10
11 Based on this analysis, the test year well capacity of 3,250 GPM and storage capacity of
12 2,550,000 gallons is adequate to serve the present customer base and growth within a five
13 year period.

14
15 **Q. Did Mr. Taylor provide any comments to Staff's calculation as presented in the**
16 **System Analysis section of Staff's Direct Testimony?**

17 A. No.

18
19 **Q. Did Mr. Taylor provide any system calculation to support his conclusion?**

20 A. No.

21
22 **Q. Does Staff agree with Mr. Taylor's conclusion that Well No. 23 is "used and useful"?**

23 A. No.

24

1 **Q. Could you explain why Well No. 23 is not used and useful in this proceeding?**

2 A. Yes. The Well No. 23 is a post-test year ("PTY") plant item. In its application, the
3 Company stated that it believes the new Well No. 23 would meet the criteria for inclusion
4 of PTY plant in rate base because; (i) the well was necessary to provide service to
5 customers at the end of the test year, and (ii) the well is a revenue neutral project. As can
6 be seen from Staff's analysis above, this is not the case.

7
8 **ARSENIC TREATMENT - MEDIA**

9 **Q. Have you reviewed the Rebuttal Testimony of Thomas J. Bourassa regarding the**
10 **arsenic treatment media and its depreciation rate?**

11 A. Yes.

12
13 **Q. What was Mr. Bourassa's conclusion regarding this arsenic media?**

14 A. Since Staff is recommending a plant-in-service increase adjustment for the arsenic
15 treatment facilities, Mr. Bourassa has reclassified the arsenic media and its depreciation
16 rate from Account No. 320.1 – Water Treatment Plant to Account No. 348.1 – Other
17 Tangible Plant – Arsenic Media with a depreciation rate of 67.0 percent.

18
19 **Q. Does Staff agree with Mr. Bourassa's depreciation rate and reclassification of the**
20 **arsenic media?**

21 A. Staff agrees with the depreciation rate of 67.0 percent, but does not agree with the
22 reclassification into Account No. 348.1. Staff believes the arsenic media should be under
23 Account No. 320.3 – Water Treatment Equipment – Media for Arsenic Treatment as
24 shown in Table J-1, Page 19 of 40, of Staff Engineering's Direct Testimony. Table J-1,
25 Depreciation Rates is also attached to this testimony for reference.
26

ADWR BEST MANAGEMENT PRACTICE TARIFFS

Q. In Staff's Direct Testimony, did Staff provide a discussion related to the ACC/ADWR – BMP Tariffs?

A. Yes. Beginning in Section N, page 11 of 40, of Staff Engineering's Direct Testimony, Staff discussed the submittal of the ACC/ADWR – BMPs and stated that Staff was working with the Company to finalize these BMPs. In addition, Staff provided DRAFT copies of the submitted BMPs and further stated that since these BMPs were not finalized at the time of Staff's Direct Testimony, Staff would provide an update of Staff's review and recommendation regarding these BMPs in its Surrebuttal.

Q. Could you provide an update of the review of these BMP Tariffs?

A. Yes. As stated in Staff's Direct Testimony, the Company filed its 11 BMP Tariffs on December 9, 2009. Draft copies of these BMP Tariffs included; 1) Public Education Program and 10 BMPs (2.2, 2.4, 3.6, 3.7, 3.8, 4.2, 5.1, 5.13, 6.12, and 7.8).

Through the review process and working with the Company, the Company substituted BMPs 5.1 and 5.13 with BMPs 1.2 and 2.3. Staff and the Company also agreed to the revised formatting of the BMPs and certain language within the BMPs. After the final review process, Staff is recommending approval of the BMPs with the exception of BMP 7.8. This BMP shall only become effective if and when it is approved by ADWR. If BMP 7.8 is not approved by ADWR by July 1, 2011, the Company shall submit a replacement BMP for Commission consideration. Copies of the final version of these BMPs are attached.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.

ATTACHMENTS

Depreciation RatesTable J-1

ADWR Best Management Practice Tariffs.....BMPs

Table J-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Proposed Rates (%)
304	Structures & Improvements	3.33
305	Collecting & Impounding Reservoirs	2.50
306	Lake, River, Canal Intakes	2.50
307	Wells & Springs	3.33
308	Infiltration Galleries	6.67
309	Raw Water Supply Mains	2.00
310	Power Generation Equipment	5.00
311	Pumping Equipment	12.5
320	Water Treatment Equipment	
320.1	Water Treatment Plants	3.33
320.2	Solution Chemical Feeders	20.0
320.3	Media for Arsenic Treatment	67.0
330	Distribution Reservoirs & Standpipes	
330.1	Storage Tanks	2.22
330.2	Pressure Tanks	5.00
331	Transmission & Distribution Mains	2.00
333	Services	3.33
334	Meters	8.33
335	Hydrants	2.00
336	Backflow Prevention Devices	6.67
339	Other Plant & Misc Equipment	6.67
340	Office Furniture & Equipment	6.67
340.1	Computers & Software	20.00
341	Transportation Equipment	20.00
342	Stores Equipment	4.00
343	Tools, Shop & Garage Equipment	5.00
344	Laboratory Equipment	10.00
345	Power Operated Equipment	5.00
346	Communication Equipment	10.00
347	Miscellaneous Equipment	10.00
348	Other Tangible Plant – Well exploration, master plan & water rights	10.00

ATTACHMENT -

ADWR

Best Management Practice

Tariffs

Company: Sahuarita Water Company, LLC

Decision No.: _____

Phone: _____

Effective Date: _____

Public Education Program Tariff

PURPOSE

A program for the Company to provide free written information on water conservation measures to its customers and to remind them of the importance of conserving water (Required Public Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall provide two newsletters to each customer; one to be provided in the spring, the other in the fall. The goal of the letters is to provide timely information to customers in preparation of the hot summer months, and the cold winter months, in regards to their water uses. The Company shall remind customers of the importance of water conservation measures and inform them of the information available from the Company.
2. Information in the newsletters shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, water cistern maintenance reminders and additional pertinent topics. Where practical, the Company shall make this information available in digital format which can be e-mailed to customers upon request or posted on the Company's website.
3. Communication channels shall include one or more of the following: water bill inserts, messages on water bills, Company web page, post cards, e-mails and special mailings of print pieces, whichever is the most cost-effective and appropriate for the subject at hand.
4. Free written water conservation materials shall be available in the Company's business office and the Company shall send information to customers on request.
5. The Company may distribute water conservation information at other locations such as libraries, chambers of commerce, community events, etc., as well.

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6. The Company shall keep a record of the following information and make it available to the Commission upon request.
 - a. A description of each communication channel (i.e., the way messages will be provided) and the number of times it has been used.
 - b. The number of customers reached (or an estimate).
 - c. A description of the written water conservation material provided free to customers.

Company: Sahuarita Water Company, LLC

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Special Events/Programs and Community Presentations Tariff –
BMP 1.2

PURPOSE

A program for the Company to give presentations and/or display and make available water conservation information and related material at community and special events.

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall attend and staff at least three events per year in which the Company shall remind customers of the importance of water conservation measures. Events may include home and garden shows, art shows, community celebrations, environmental shows etc.
2. Information shall include water saving tips, home preparation recommendations for water systems/pipes, landscape maintenance issues for summer and winter, Xeriscape information, youth education materials and any additional pertinent topics.
3. The Company shall keep a record of the following information and make it available to the Commission upon request.
 - a. A description of each special event and the date.
 - b. The number of customers reached (or an estimate).
 - c. A description of the written water conservation material provided free to customers.
 - d. Costs of the Special Events/Programs and Community Presentations implementation.

Company: Sahuarita Water Company, LLC

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Youth Conservation Education Program Tariff – BMP 2.2

PURPOSE

A program for the Company to promote water conservation by increasing students' understanding of water resources and the need to conserve (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.2: Youth Conservation Education Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company or designated representative shall work with schools in its service area to increase students' understanding of water resources and to promote water conservation.
2. The Company shall provide a combination of instructional assistance, education materials, teacher education, classroom presentations, and field trips to water related facilities.
3. The Company shall make available free water conservation workbooks for elementary school students.
4. The Company shall keep a record of the following information and make it available upon request.
 - a. A description of the youth conservation education process implemented.
 - b. The number of students reached (or an estimate).
 - c. A description of the written water conservation material provided free to students.
 - d. Costs of the Youth Conservation Education Program implementation.

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New Homeowner Landscape Information Tariff – BMP 2.3

PURPOSE

A program for the Company to promote the conservation of water by providing a landscape information package for the purpose of educating its new customers about low water use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.3: New Homeowner Landscape Information).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Upon establishment of water service the Company shall provide a free "Homeowner Landscape Packet" to each new customer in the Company's service area. The packet will include at a minimum: a cover letter describing the water conservation expectations for all customers in the Company's service area, all applicable tariffs, a basic interior exterior water saving pamphlet, xeriscape landscape information, a list of low water use trees, plants, shrubs, etc., watering guidelines, a rain water harvesting pamphlet.
2. Upon customer request, the Company shall provide:
 - a. On-site consultations on low water use landscaping and efficient watering practices.
 - b. A summary of water saving options.
3. The number of packets provided to new customers will be recorded and made available to the Commission upon request.

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Xeriscape Demonstration Garden Tariff – BMP 2.4

PURPOSE

A program for the Company to install and maintain a water efficient demonstration garden for the purpose of educating its customer base on low water-use landscaping (Modified Non-Per Capita Conservation Program BMP Category 2: Conservation Education and Training 2.4: Xeriscape Demonstration Garden).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall design, construct and maintain a demonstration garden that shall include a large variety of low water use and native plants, shrubs and shade trees.
2. The demonstration garden shall include a walkway throughout the site and include interpretive signage and literature about low water use plants and water efficient landscape techniques.
3. The demonstration garden shall be open, free of charge, to the public during normal business hours and the _____ Saturday of each month.
4. Maps providing driving directions to the demonstration garden shall be available at the Company office, on the Company web-site, and shall be provided to each new customer upon establishment of service.
5. The Company shall work with the schools, including the universities, to continually upgrade the site with additional technologies and techniques.

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Customer High Water Use Inquiry Resolution Tariff – BMP 3.6

PURPOSE

A program for the Company to assist its customers with their high water-use inquiries and complaints (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.6: Customer High Water Use Inquiry Resolution).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle high water use inquiries as calls are received.
2. Calls shall be taken by a customer service representative who has been trained on typical causes of high water consumption as well as leak detection procedures that customers can perform themselves.
3. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to the customer's residence to conduct a leak detection inspection and further assist the customer with water conservation measures.
4. The Company shall follow up in some way on every customer inquiry or complaint and keep a record of inquiries and follow-up activities.

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Customer High Water Use Notification Tariff – BMP 3.7

PURPOSE

A program for the Company to monitor and notify customers when water use seems to be abnormally high and provide information that could benefit those customers and promote water conservation (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services Program 3.7: Customer High Water Use Notification).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall track water usage for each customer and notify the customer if water use seems excessive for that particular billing for that time of the year.
2. The Company shall identify customers with high consumption and investigate each instance to determine the possible cause.
3. The Company shall contact the high water use customers via telephone, email, by mail or in person. The Company shall contact the customer as soon as practical in order to minimize the possible loss of water. The customer will not be required to do anything to receive this notification.
4. In the notification the Company shall explain some of the most common water usage problems and common solutions and points of contact for dealing with the issues.
5. In the notification, the customer will be reminded of at least the following water-saving precautions:
 - a. Check for leaks, running toilets, or valves or flappers that need to be replaced.
 - b. Check landscape watering system valves periodically for leaks and keep sprinkler heads in good shape.

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- c. Adjust sprinklers so only the vegetation is watered and not the house, sidewalk, or street, etc.
 - d. Continue water conservation efforts with any pools such as installing covers on pools and spas and checking for leaks around pumps.
6. In the notification, the customer will also be reminded of at least the following ordinary life events that can cause a spike in water usage:
 - a. More people in the home than usual taking baths and showers.
 - b. Doing more loads of laundry than usual.
 - c. Doing a landscape project or starting a new lawn.
 - d. Washing vehicles more often than usual.
7. The Company shall provide water conservation information that could benefit the customer, such as, but not limited to, audit programs, publications, and rebate programs.
8. The Company shall assist the customer in a self-water audit and assist the customer in determining what might be causing the high water usage as well as supply customer with information regarding water conservation and landscape watering guidelines. As part of the water audit the Company shall confirm the accuracy of the customer meter if requested to do so by the customer (applicable meter testing fees shall apply).
9. The type of notification, the timing of the notification (i.e., how long after high water use was discovered by the Company), and the criteria used for determining which customers are notified shall be recorded and made available to the Commission upon request.

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Water Waste Investigations and Information Tariff – BMP 3.8

PURPOSE

A program for the Company to assist customers with water waste complaints and provide customers with information designed to improve water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 3: Outreach Services 3.8: Water Waste Investigations and Information).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission specifically R14-2-403 and R14-2-410 and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. The Company shall handle water waste complaints as calls are received.
2. Calls shall be taken by a customer service representative who has been trained to determine the type of water waste and to determine if it may be attributed to a leak or broken water line.
3. The Company shall follow up on every water waste complaint.
4. Upon request by the customer or when the Company determines it is warranted, a trained Field Technician shall be sent to investigate further and notify the responsible party of the waste and offer assistance and information to prevent waste in the future.
5. A letter of enforcement will be issued to customers with water running beyond the curb and/or off the customers property due to such things as, but not limited to, backwashing of pools, broken sprinkler heads, and over watering of lawns beyond the saturation point.
6. The same procedures outlined above in item #4 will be followed in the event of a second violation. Termination of service may result in the event of the third violation within a 12 month period. In the event of a third violation the customer's service may be terminated per Arizona Administrative Code R14-2-410C, R14-2-410D and R14-2-410E (applicable service reconnection fees shall apply).

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7. The Company shall record each account and each instance noted for water waste, the action taken and any follow-up activities.
8. Subject to the provisions of this tariff, compliance with the water waste restriction will be a condition of service.
9. The Company shall provide to its customers a complete copy of this tariff and all attachments upon request for service. The customer shall abide by the water waste restriction.
10. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Services Section at 1-800-222-7000 to initiate an investigation.

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Meter Repair and/or Replacement Tariff – BMP 4.2

PURPOSE

A program for the Company to systematically assess all in-service water meters (including Company production meters) in its water service area to identify under-registering meters and to repair or replace them (Modified Non-Per Capita Conservation Program Best Management Practice Category 4: Physical System Evaluation and Improvement 4.2 Meter Repair and/or Replacement Program).

REQUIREMENTS

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. On a systematic basis, the Company will inspect 100 percent of its 1-inch and smaller in-service water meters at least once every ten years for one of the following reasons:
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has registered 1,000,000 gallons of usage, or
 - c. A meter has been in service for ten years.
2. Meters larger than 1-inch shall be inspected for one of the following reasons:
 - a. A meter reading complaint is filed with the Company by a customer or Arizona Corporation Commission Staff,
 - b. A meter has been in service for five years.
3. The inspection will be accomplished by having the meter pulled and having a Company Technician physically inspect each meter and its fittings for leaks, registers which may have become loose or are not properly attached to the meter and could be under-registering or other broken parts which need repair. In addition, meters shall be randomly selected for flow testing to identify potentially under-registering meters.
4. The Company shall also replace or reprogram all water meters that measure consumption in 1000 gallon increments such that they shall measure consumption in 1 gallon increments.

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Large Landscape Conservation Program Tariff – BMP 6.12

PURPOSE

A program for the Company to promote water conservation measures by providing non-residential customers with support and incentives to improve their landscape water use efficiency (Modified Non-Per Capita Conservation Program BMP Category 6: Rebates/Incentives 6.12: Large Landscape Conservation Program).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. As an incentive to reduce water use for its non-residential customers with landscape watering needs, the Company shall work with the customer or the customer's contracted landscape company to collect and analyze up to 3 years of historical information for their meters, analyze past consumption patterns and compare meter size with consumption rates that might suggest meter over-sizing or meter/valve/backflow malfunctions. This analysis shall be presented in both raw data and graphically with recommendations for potential meter resizing and identification of high consumption situations and potential malfunctions of landscape watering equipment.
2. No less frequently than every three years, or upon customer request, the Company shall provide its non-residential customers with landscape watering needs, a historical consumption analysis study as described above in item #1 for their respective landscape watering meters within the Company's service area.
3. Company service shall be offered using an inverted block rate structure.
4. Upon customer request, the Company shall provide:
5. On-site consultations on low water use landscaping and efficient watering practices.
6. A summary of water saving options and a month-by-month outdoor water budget.

Company: Sahuarita Water Company, LLC

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Phone: _____

Effective Date: _____

Piloting a New Initiative, Project or Program Tariff – BMP 7.8

PURPOSE

A program for the Company to conduct a new initiative, project or program in its water service area using state of the art water conservation technologies and techniques (Modified Non-Per Capita Conservation Program BMP Category 7: Research/Innovation Program 7.8: Piloting a New Initiative, Project or Program).

REQUIREMENTS:

The requirements of this tariff are governed by Rules of the Arizona Corporation Commission ("Commission") and were adapted from the Arizona Department of Water Resources' Required Public Education Program and Best Management Practices in the Modified Non-Per Capita Conservation Program.

1. Prior to implementing a new project or program the Company shall file a detailed explanation with the Commission describing how the program would work, the possible results and expected costs.
2. At minimum, one new project or program shall be proposed every three years for Commission approval.
3. If a project or program is approved by the Commission, the Company shall document that project or program by filing a report each March covering the activities of the prior calendar year. The report shall include at least the following information:
 - a. Description of the process to implement,
 - b. Costs of implementation, and
 - c. Conservation results.
4. If necessary, the Commission may request additional information.